## Preliminary results for the twelve months ended 31 December 2022

# SECURING FUTURE MOMENTUM

### PAUL STOCKTON, GROUP CHIEF EXECUTIVE, SAID:

"The UK wealth and asset management sector remains fundamentally attractive, underpinned by long-term trends. The strong progress we have made this year to develop our investment and financial planning services is part of our ongoing investment to improve client experience and promote efficiency.

Our financial results reflect the difficult market conditions faced by many investors in 2022, but also the very deliberate investment in technology we have committed to, which will provide critical support to the delivery of the personal service we offer and improve our investment capability.

Throughout the year, we remained focused on providing consistency and reassurance to our clients, to help them achieve their financial goals."

### FINANCIAL HIGHLIGHTS

- Total FUMA was £60.2 billion at 31 December 2022, down 11.6% from £68.2 billion at 31 December 2021:
  - £45.1 billion in Investment Management (excluding Saunderson House), down 10.2% (2021: £50.3 billion).
  - £11.0 billion in Rathbone Funds, down 15.3% (2021: £13.0 billion).
  - £4.1 billion of Saunderson House FUMA, down 16.3% (2021: £4.9 billion).
- Discretionary and managed net inflows were resilient in the year at £1.3 billion (2021: £1.8 billion), representing a growth rate of 2.6% (2021: 4.1%):
  - Discretionary service net inflows totalled £0.9 billion (2021: £1.3 billion).
  - Net inflows into our multi-asset fund range were strong, totalling £0.4 billion and equating to net growth for the year of 20% (2021: £0.5 billion).

| | **2022 £m (unless stated)** | 2021 £m (unless stated) | Change |
|---|---|---|---|
| Operating income | **455.9** | 435.9 | 4.6% |
| Underlying operating expenses[1] | **(358.8)** | (315.2) | 13.8% |
| Underlying profit before tax[1] | **97.1** | 120.7 | (19.6%) |
| Underlying operating margin[1] | **21.3%** | 27.7% | |
| Profit before tax | **64.1** | 95.0 | (32.5%) |
| Underlying earnings per share[1] | **130.8p** | 172.2p | (24.0%) |
| Earnings per share | **83.6p** | 133.5p | (37.4%) |

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

### OUTLOOK AND GUIDANCE

As set out in 2022, investment in our medium-term strategy will continue in 2023, to complete the integration of Saunderson House and the investment in our digital programme. We remain on track to invest a total of £40 million in this programme, continuing to target a return to more usual "higher 20s" underlying operating margin levels by the end of 2024, as benefits from recent acquisitions and planned investment are achieved.

The wealth management sector continues to offer a significant long-term opportunity which Rathbones has the brand, momentum and balance sheet strength to benefit from.

### DECLARATION OF FINAL DIVIDEND

The board recommends a final dividend of 56p for 2022 (2021: 54p), making a total of 84p for the year (2021: 81p), an increase of 3.7% on 2021. This is consistent with our progressive policy and is supported by our strong capital position and robust balance sheet. The dividend will be paid on 9 May 2023, subject to shareholder approval at our 2023 Annual General Meeting on 4 May 2023.

## 2022 RESULTS PRESENTATION

A presentation detailing Rathbones' 2022 results is available on the investor relations website under the tab 'Results Presentations' (https://www.rathbones.com/investor-relations/results-and-presentations).

A presentation to analysts and investors will take place this morning at 10:30am at our offices at 8 Finsbury Circus, London, EC2M 7AZ. Participants who wish to join the presentation virtually can do so by either joining the video webcast (https://www.investis-live.com/rathbone-brothers/63c03c58aeebb9120025c60f/glelee) or by dialling in using the conference call details below:

United Kingdom: 0800 640 6441

United Kingdom (Local): 020 3936 2999

All other locations: +44 203 936 2999

Participant access code: 453969

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

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

Issued on 1 March 2023

For further information contact:

Rathbones Group Plc
Tel: 07702605524
email: sarah.lewandowski@rathbones.com

Paul Stockton, Group Chief Executive
Jennifer Mathias, Group Chief Financial Officer
Sarah Lewandowski, Head of Investor Relations

Camarco
Tel: 020 3757 4984
email: ed.gascoigne-pees@camarco.co.uk

Ed Gascoigne-Pees
Julia Tilley

## RATHBONES GROUP PLC

Rathbones provides individual investment and wealth management services for private clients, charities, trustees and professional partners. We have been trusted for generations to manage and preserve our clients' wealth. Our tradition of investing and acting responsibly has been with us from the beginning and continues to lead us forward. Our ambition is to be recognised as the UK's most responsible wealth manager.

Rathbones has over 2,200 staff in 14 UK locations and Jersey; its headquarters is 8 Finsbury Circus, London, EC2M 7AZ.

www.rathbones.com

# CHAIR'S STATEMENT

## DEAR SHAREHOLDER

As I look back to the start of 2022, few of us correctly predicted the full global economic impacts of the aftermath of the coronavirus pandemic, together with implications of the unprovoked war in Ukraine. With UK inflation at its highest in 40 years (more than double the rate it was when I wrote this statement last year), the resulting 'cost-of-living' crisis has highlighted even more the importance of the work we do for our clients and all our stakeholders.

In the face of these challenges, the reassurance and advice that Rathbones has diligently provided our clients has demonstrated the resilience that is part of our DNA. We continued to invest to improve the firm's capabilities and made strong progress against our strategic ambitions. Saunderson House is a new and welcome member of our family, integrating well and improving our advisory services. I look forward to seeing the continued future benefits both from this acquisition and from our ongoing investment in technology.

## SHAREHOLDER RETURNS AND DIVIDENDS

Rathbones has a long and successful track record in generating attractive returns for our shareholders. In 2022, Rathbones' total shareholder return (TSR) was 7%, which compares favourably against the FTSE All Share Index of 0.3%.

This is in part a result of our progressive dividend policy, in place for the last 25 years. When making dividend decisions, the board considers several factors and aims to look beyond temporary market or economic downturns. Given the strength of our balance sheet, and our confidence in the long-term future of the business, the board has recommended a final dividend of 56p per share. This brings the total dividend for the year to 84p per share, 3.7% ahead of 2021. The dividend will be paid on 9 May 2023, subject to shareholder approval at our 2023 Annual General Meeting on 4 May 2023, for shareholders who are on the register on 21 April 2023.

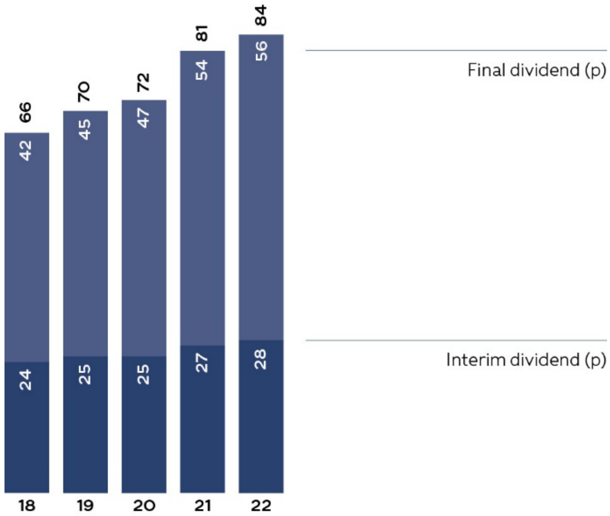
## CULTURE

The board plays a critical role in setting the firm's strategy, purpose, business model and culture. Each director recognises the role we have to play in setting the 'tone from the top'; and in monitoring how the firm's culture and values are 'lived'. The board has refreshed its culture dashboard which has been simplified to help strengthen the firm's culture. Importantly, the culture dashboard is subject to regular review by the board.

Through my own engagement with employees and through our board's workforce engagement programme, I am pleased to see the firm's strong and distinctive culture in action. This is evidenced by the continuing commitment on the part of our employees to support our clients and the broader community. Further information can be found in the full corporate governance report.

FIVE-YEAR DIVIDEND GROWTH

2022: 84P




## RESPONSIBLE INVESTMENT

Rathbones has a long history of ethical, sustainable and impact investment – led by Greenbank – which continues to receive industry accolades for its purpose and performance, and which this year celebrated its 25th Investor Day. A quarter of a century evidences the company's commitment to investing in ethical, sustainable and impact opportunities for clients.

In 2021, Rathbones announced its intention to be a net zero emissions business by 2050 or sooner. In 2022, our near-term targets were validated by the Science-Based Targets initiative. The year saw an increase in our operational emissions, mainly driven by an increase in travel as colleagues returned to face-to-face meetings and moving between our offices. In 2023, we will look to make reductions in our operational footprint as we welcome our Saunderson House colleagues to Finsbury Circus, a much more energy efficient building.

Our responsible investment committee defines responsible investing as 'the purposeful integration of ESG considerations into the investment management process'. In 2022, we took this further and incorporated climate risks into the management of our portfolios. We now recognise that climate risks can materially affect the performance of our client's investment holdings over the longer term. In particular, our updated voting policy includes clear expectations of how companies will be assessed on their own net zero strategies.

## COLLEAGUES

Our colleagues are critical to Rathbones' success, so it is imperative that the board instils a culture that motivates and rewards. We want all Rathbones' employees to have the opportunity to build long-lasting and fulfilling careers. During 2022, we conducted an employee engagement survey where 82% of employees responded. Our net promoter score at 39 is well above the sector average of 22; highlighting the attractiveness of our employee proposition. Our colleagues possess integrity and operate in a culture which values personal responsibility and delivery.

We are incredibly grateful to all our colleagues for their resilience and diligence in a difficult year. We could not have achieved sustained growth and good returns for all other stakeholders without their efforts. The mental and financial wellbeing of our colleagues is important and deserves – and receives – our continual focus. The board continued to improve wellbeing initiatives; including our employee assistance programme, flexibility in the form of hybrid working and provided a one-off cost of living payment to eligible employees.

## BOARD COMPOSITION AND SUCCESSION

2022 was a year of change for the board. As planned, James Dean stepped down at the Annual General Meeting (AGM) in May, having served nine years on the board, where he made a huge contribution as a non-executive director and the chair of the audit committee. As part of the board's succession plans, Iain Cummings succeeded James as chair of the audit committee.

In July, Colin Clark, senior independent director and non-executive director, stepped down from the board. Colin joined the board in 2018 and helped oversee the appointment of a new chair. His extensive industry knowledge and experience have been much valued. I am pleased that Sarah Gentleman, chair of the remuneration committee, assumed the role of senior independent director.

During the year, the nomination committee spent time to identify the diversity, skills and experience required by the board to deliver our strategy and to continue to guide the executive team appropriately.

We currently meet the Hampton-Alexander requirement for at least one third of the board to be female and the Parker Review recommendation that all boards should have at least one ethnic minority director. While we are content with the progress made in this area, we acknowledge that there is more to be done to drive greater diversity – principally of thinking – in our business at both board and executive level.

## LOOKING AHEAD

Whilst every year has a strong focus on clients and client outcomes, this was particularly true in 2022. We will continue that work into 2023 and beyond to ensure that we offer the best service and value for money that we can, as our business model continues to support our stakeholders through this period of uncertainty.

From a strategic perspective, the focus for 2023 remains to deliver further returns from the acquisition of Saunderson House, to foster sustained organic growth across the business, at the same time delivering on our digital transformation agenda. The delivery of these objectives will allow us to improve operating margins by the end of 2024.

There remain significant opportunities in the private client wealth management sector in the United Kingdom, and with a strong balance sheet and professional colleagues, Rathbones is well placed to take advantage of the opportunities that lie ahead. Difficult as current markets may appear, Rathbones possesses extraordinary positional assets – our brand, our people, our competencies and our clients.

Finally, on behalf of the board, I would like to thank our clients, shareholders and colleagues for their commitment to achieving our goals in what has been a very challenging year.

**Clive C R Bannister**
Chair

28 February 2023

# GROUP CHIEF EXECUTIVE'S REVIEW

## INTRODUCTION AND MARKET OVERVIEW

As a market facing business, our performance this year has inevitably been impacted by the many well chronicled events of 2022. Clients have observed financial markets that we have not seen in a long time, and alongside many, our active orientation towards growth stocks dampened investment performance over this financial year. Despite these external market pressures, Rathbones delivered a resilient financial performance in the year, benefiting from a diversified business model that meets client needs no matter what market conditions we face.

The UK wealth and asset management sector remains fundamentally attractive with embedded structural growth underpinned by strong long-term trends. The progress we have made this year, in terms of growing our financial planning offering and taking strides to continually improve our customer experience, positions us well despite short-term market fluctuations. Our model responds positively in times like these by providing reassurance and consistency to our clients and supporting high client retention rates of 93.7%.

## FINANCIAL PERFORMANCE AND FUND FLOWS

Market movements in investment values to 31 December 2022 adversely impacted total funds under management and administration (FUMA), which closed the year at £60.2 billion, down from £68.2 billion in the same period last year. This comprised £45.1 billion in our Investment Management business (FY 2021: £50.3 billion), £11.0 billion in Rathbones Funds business (FY 2021: £13.0 billion) and £4.1 billion in Saunderson House (FY 2021: £4.9 billion).

Profit before tax totalled £64.1 million (2021: £95.0 million) and underlying profit before tax totalled £97.1 million (2021: £120.7 million). This resulted in an underlying operating profit margin of 21.3% (2021: 27.7%), which was in line with expectations after planned investment in change and technology.

Markets were heavily driven by macroeconomic themes in the year, which changed rapidly and were often difficult to navigate for long-term investors. Investment performance in our investment management business reflected this volatility and fell 11.3%, much more in line with the MSCI PIMFA Private Investor Balanced Index which fell 10.2% in the year, a favourable outcome against the FTSE 250, which was down 19.7%.

Despite the challenging market, net inflows in the period have been positive, highlighting the attractiveness of our propositions and our clients' willingness to invest. Total discretionary and managed net inflows were £1.3 billion in 2022 (2021: £1.8 billion), representing a growth rate of 2.6%. External inflows of £0.4 billion into our risk targeted multi-asset fund range (a central part of our managed offering to the adviser market) were resilient in the period (2021: £0.5 billion). This fund range also underpins our offering for those clients wishing to invest smaller values.

As expected, the asset management industry experienced significant outflows in the year as investors exercised caution across growth and fixed income mandates. Nevertheless, a net outflow of £0.4 billion in our single-strategy fund range was low when compared with the market. Rathbones was also ranked in 8th position for total net sales in the UK in the most recent Pridham Report (2021: 5th position).

## STRATEGIC UPDATE

Our strategy is driven by four pillars: enriching the client and adviser proposition and experience, supporting and delivering growth, inspiring our people, and operating more efficiently. Our focus on delivering against this strategy has driven positive changes within the business during the year, with the main highlights outlined throughout this report.

Aside from using technology to improve how our clients access portfolio information and interact with us, our proposition focus in 2022 was to streamline the way in which we work with external financial advisers and networks directly. In May 2022 we launched a revised 'Reliance on Adviser' proposition which improved administrative processes and simplified our overall operating model to make Rathbones easier to do business with. As the new proposition removes duplication of documentation and simplifies client onboarding, this provides benefits for both investment managers and advisers to foster stronger relationships and support growth. Since launch, the proposition has been well received by existing advisers and introduced 40 new IFA relationships to Rathbones.

The Defaqto discretionary fund manager satisfaction study (published February 2022) is based on feedback from adviser firms that have outsourced their client investment assets to third-party discretionary managers. The study received nearly 300 responses and measured which DFMs were being recommended and how satisfied the advisers were with their preferred DFM providers. The study showed that bespoke services are still the most popular form of DFM with 65% of advisers opting for this service. Rathbones, among some peers, received most nominations as a preferred provider from advisers for bespoke DFM which rewards our continued investment in this area. At 31 December 2022, the amount of adviser linked FUMA across Rathbones was £10.7 billion (31 December 2021: £11.4 billion).

The acquisition of Saunderson House in 2021 was an important step to add financial advice capability to the group. In June 2022 we launched new advice and investment propositions that brought together the best of Saunderson House and Rathbones, delivering stronger discretionary services together with wealth planning and ongoing advice and point in time advice services. We begin 2023 with one leadership team across Saunderson House and Rathbone Financial Planning with the division now comprising 303 people in total, in seven offices and with 72 financial planners. We now have a sizeable UK market presence that is working more effectively in target segments and across the group. During 2023, the focus will be on transitioning Saunderson House clients to new propositions to support the benefits that were highlighted at the time of acquisition. Other work to integrate support teams into Rathbones has been largely completed, creating a vibrant combined culture that has offered many employees the opportunity to work across a wider group. Despite volatile markets since the acquisition, the accretion of c.10% and a return on invested capital of 12% by the end of 2024 remains our target.

Vision remains an important part of our financial advice proposition as an independent specialist financial advice network focusing on high-net-worth private clients. In 2022, FUMA in Vision was £2.6 billion at 31 December 2022 (2021: £2.7 billion) with 131 financial planners (2021: 131), including 15 new IFAs and another 9 going through the onboarding process. We anticipate further recruitment in Vision in 2023 as the business continues to grow and leverage its strong relationship with the Rathbones Group.

During the year, we developed the 'Rathbone Select Portfolio Service' further. The aim of this service is to deliver a high-quality, 'self-select' investment service for smaller value portfolios. It provides cost effective solutions for our clients with portfolios below £150k, recognising the importance of an entry point to Rathbones to suit the needs of the next generation of wealth. Following a successful pilot, in 2022 Rathbone Select Portfolio Service has been rolled out to all offices, now serving c.3,000 clients. In 2023, we will continue to offer the service to clients with less to invest, adding capacity by delivering a diversified and economical solution for clients.

## AN UPDATE ON OUR DIGITAL PROGRAMME

Our objectives for 2022 were to make positive strides to better employ technology, not only to improve client experience, but to streamline processes and drive greater productivity across the business that will support growth. Technology can also boost employee morale and create the time and resources to invest in future growth initiatives.

Our aspiration is that over the medium term we embed a digital experience that complements our face-to-face services, offering a broader set of communication and service delivery options for clients, advisers and other new relationships.

The first stage in our digital delivery was the launch of the MyRathbones client portal and app in 2021. We significantly developed MyRathbones' capability in 2022 and over c.33,900 clients (around 50% of our client base) interact with the portal, which we expect to grow further in 2023. The strong app rating that it has achieved reflects a high-quality user experience and a sensitivity to client needs, now incorporating secure messaging and sharing investment content on a proactive basis.

The deployment of our InvestCloud client lifecycle management system has progressed well this year, resulting in the deployment of prospecting capability to a pilot group in the fourth quarter. We also completed work to upgrade our data management capability and streamline key client processes in preparation for the more extensive launch of on-boarding and suitability functionality in 2023. This investment in our digital platform will improve productivity as well as enhance the experience for clients, investment managers and planners.

In our Funds business we successfully delivered on the first phase of the Charles River's portfolio management solution. Deployed in November 2022, this is an important additional capability to strengthen investment processes and improve efficiency.

In 2023, we will continue to deliver on our technology plans, including the further deployment of InvestCloud and have a clear roadmap to enhance our digital capabilities further. Our digital and data strategy programmes remain critical to client engagement and productivity.

## ONGOING SERVICE IMPROVEMENT

In a volatile market we have seen some of the benefits of the more diversified investment approach we take, that supports our bespoke discretionary investment service. Investment in our research capability over recent years has improved the quality and depth of our investment process, the support that is offered to investment teams, and the production of topical output that we share with clients. Overall, our research team now consists of 45 research professionals with our investment managers also contributing to research and asset allocation across the group.

Our ambition is to cater to client needs across the ESG spectrum, whether their interest in ESG factors is driven simply by financial materiality or by specific sustainability preferences. To support all areas of responsible investment, in 2022 we integrated an expanded ESG research data set into the investment process across the group and improved our ESG reporting. We believe that clear and ongoing communication to clients on the ESG characteristics of our investments is as important as being clear on other value-based components of investment decision-making.

External market conditions were not kind to any portfolio that excluded oil and/or mining companies and also some banks, particularly in the first quarter of 2022. This inevitably impacted performance in specialist ethical and sustainable portfolios at Rathbone Greenbank Investments as £2.0 billion of funds under management at 31 December 2022 fell 13.0% from £2.3 billion in 2021. We continue to believe that this longer-term proposition has growth potential to capture future opportunities.

Rathbones has received recognition from a variety of sources in 2022. We were included in a select group of firms to have received Five Stars in the Investment Providers category at the 2022 Financial Adviser Service Awards, representing 'excellent service'. Our 'Votes against slavery' collaborative engagement programme has also won Stewardship initiative of the year at the PRI awards. The campaign that was led by Rathbones included 122 asset managers, pension funds and institutional investors with assets under management totalling £9.6 trillion and targeted FTSE 350 companies failing to comply with Section 54 of the Modern Slavery Act 2015. We were also listed as the top DFM provider for bespoke portfolios in The Citywire New Model Adviser Top 100. Prestigious awards such as these highlight the commitment we have to our clients and the wider community and affirms the high-quality service we provide.

Our most recent client experience survey, undertaken in October 2022, shows a strong level of satisfaction. We will continue to prioritise client engagement to demonstrate and be accountable for the choices we make to help our clients grow their wealth.

## OUR PEOPLE

As a people led business, our strategy sets a culture that drives performance and builds long, rewarding careers for our colleagues. Aside from our commitment to diversity, equality and inclusion, we continue to invest in training and career development, building leadership skills and proactively managing succession. We obtain regular feedback from employees, now running regular surveys covering various topics. Engagement scores throughout 2022 remained high, with our survey scoring 8/10, higher than the financial services benchmark of 7.8, with an employee response rate of 82%.

Ensuring employee wellbeing has always been important at Rathbones. Considering the challenges facing many individuals during the current cost of living crisis, our financial wellbeing offerings have proved ever more valuable this year, including one-off discretionary payments to eligible colleagues.

Furthering our diversity, equality and inclusion agenda, we launched many initiatives during the year, noting in particular our four inclusion networks across the group, which have the aim of challenging us to attract a diverse range of talent, create a more gender balanced Rathbones and leverage the skills and abilities of all colleagues from different backgrounds.

## RISK MANAGEMENT AND REGULATION

Risk management practices continue to be embedded across the business as we remain conscious of the impact of the changing risk landscape to our firm and industry, particularly in an uncertain economic climate. We continue to respond appropriately to regulatory changes and acknowledge recent FCA and PRA consultation activity and statements. Consumer Duty rules are expected to come into force during the summer of 2023 and we have been working hard to respond accordingly, developing plans for implementation later this year.

## OUTLOOK

The business starts 2023 with good momentum as our client propositions and focus on service continue to promote opportunities for growth.

As set out in 2022, investment in our medium-term strategy will continue in 2023, most notably to complete the integration of Saunderson House and the investment in technology, to embed a digital capability that improves client experience. We remain on track to invest a total of £40 million in this programme, continuing to target a return to more usual 'high-20s' underlying operating margin levels by the end of 2024, as benefits from recent acquisitions and planned investment are achieved.

The wealth management sector continues to offer a significant long-term opportunity which Rathbones has the brand, momentum and balance sheet strength to benefit from.

**Paul Stockton**
Group Chief Executive Officer

28 February 2023

# FINANCIAL PERFORMANCE

## OVERVIEW OF FINANCIAL PERFORMANCE

The group's financial performance for the year to 31 December 2022 remained resilient during a challenging year for markets and investors. We continued to attract new business and achieved sustained net inflows despite volatile markets.

Underlying profit before tax was £97.1 million (2021: £120.7 million), a fall of 19.6% in the year, which includes £16.3 million of the £40 million planned expenditure on our digital strategy which we announced in February 2022. Despite falls across all major markets, operating income increased 4.6% to £455.9 million (2021: £435.9 million). The underlying operating margin, which is calculated as the ratio of underlying profit before tax to operating income, was 21.3% (2021: 27.7%).

Operating income for the year benefited from our diversified revenue streams with use of the group's banking licence and a full year's contribution of Saunderson House which we acquired in October 2021. Whilst fee income reduced given lower funds under management, net interest income contributed £18.3 million to operating income in 2022 (2021: £3.9 million) due to the rising interest rate environment. The increase in expenditure was in line with expectations and largely driven by our strategic growth plan, including our digital programme, together with the addition of Saunderson House.

The underlying operating margin rises to 24.9% when underlying profit before tax is adjusted for £16.3 million of operating expenses on the group's digital programme. Agile and phased delivery of the project has ensured good progress with a resulting improvement in client engagement.

Statutory profit before tax for 2022 was £64.1 million (2021: £95.0 million). This included planned deferred acquisition and integration costs of £10.0 million relating to Saunderson House (2021: £3.7 million), and £3.5 million deferred acquisition costs for Speirs & Jeffrey (2021: £6.4 million). See note 3 for further detail.

The board primarily considers underlying measures of income, expenditure and earnings when assessing the performance of the group. These are considered to provide useful additional information on business performance, rather than reviewing results on a statutory basis only. These measures are also widely used by research analysts covering the group. A full reconciliation between underlying results and the closest IFRS equivalent is provided in table 3.

## TABLE 1. GROUP'S OVERALL PERFORMANCE

| | **2022 £m (unless stated)** | 2021 £m (unless stated) |
|---|---|---|
| Operating income | **455.9** | 435.9 |
| Underlying operating expenses[1] | **(358.8)** | (315.2) |
| Underlying profit before tax[1] | **97.1** | 120.7 |
| Underlying operating margin[1] | **21.3%** | 27.7% |
| Profit before tax | **64.1** | 95.0 |
| Effective tax rate | **23.6%** | 20.8% |
| Taxation | **(15.1)** | (19.8) |
| Profit after tax | **49.0** | 75.2 |
| Underlying earnings per share[1] | **130.8p** | 172.2p |
| Earnings per share | **83.6p** | 133.5p |
| Dividend per share[2] | **84.0p** | 81.0p |
| Return on capital employed (ROCE)[1] | **7.7%** | 13.0% |
| Underlying return on capital employed[1] | **11.8%** | 16.1% |

1. A reconciliation between the measure and its closest IFRS equivalent is shown in table 3
2. The total interim and final dividend proposed for the financial year

## BUSINESS PERFORMANCE: FUNDS UNDER MANAGEMENT AND ADMINISTRATION (FUMA)

Net inflows of discretionary and managed FUMA in Investment Management remained positive across each quarterly trading period, despite volatile investor conditions, totalling £0.9 billion in 2022 (2021: £1.3 billion). Direct net flows into our multi-asset fund range were particularly robust, reflecting the diversification and perceived relative safety of these funds, and totalled £0.4 billion in the year (2021: £0.5 billion). Taken together, this represents a growth rate of 2.6% in discretionary and managed FUMA (2021: 4.1%).

The asset management industry saw outflows in single-strategy funds in the year, with a 13.8% reduction in industry-wide funds under management and administration. Our single-strategy funds experienced net outflows of £0.4 billion in the year (2021: net inflows of £1.2 billion), representing 4.5% of opening funds under management and administration, as investors favoured value stocks over our relative overweight position in growth-oriented stocks. As the year progressed, we saw a reduction in the level of outflows as investors began to adopt higher risk positions as inflation and interest rate fears abated somewhat.

Uncertainty across UK and global markets, driven by macroeconomic and geopolitical volatility, contributed to an adverse £8.4 billion market movement on asset values in the year, resulting in FUMA closing 11.7% down at £60.2 billion (2021: £68.2 billion) (Table 2). This compares with favourable market movements of £5.9 billion in 2021. During the latter half of the year, our investment performance benefited from an underweight exposure to both fixed income securities and North American equities, relative to the PIMFA Balanced index.

#### TABLE 2. GROUP FUMA AND FLOWS BY SERVICE LEVEL

| Year ended 31 December 2022 | Opening FUMA £bn | Net flows £bn | Net service level transfers £bn | Market & investment performance £bn | Closing FUMA £bn | Net growth (flows) % |
|---|---|---|---|---|---|---|
| Discretionary service | 49.3 | 0.9 | (0.2) | (5.7) | 44.3 | 1.9% |
| Bespoke portfolios | 48.0 | 0.8 | (0.3) | (5.6) | 42.9 | 1.6% |
| Managed via in-house funds | 1.3 | 0.1 | 0.1 | (0.1) | 1.4 | 10.3% |
| Multi-asset funds | 2.0 | 0.4 | – | (0.2) | 2.2 | 20.0% |
| **Total discretionary & managed** | **51.3** | **1.3** | **(0.2)** | **(5.9)** | **46.5** | **2.6%** |
| Non-discretionary service | 1.0 | (0.1) | (0.1) | (0.1) | 0.7 | (7.4%) |
| **Total wealth management** | **52.3** | **1.2** | **(0.3)** | **(6.0)** | **47.2** | **2.4%** |
| Single-strategy funds | 8.3 | (0.4) | – | (1.4) | 6.5 | (4.5%) |
| Execution only & banking | 2.7 | (0.2) | 0.3 | (0.4) | 2.4 | (9.0%) |
| **Total** | **63.3** | **0.6** | **0.0** | **(7.8)** | **56.1** | **1.0%** |
| Saunderson House | 4.9 | (0.2) | (0.0) | (0.6) | 4.1 | (4.9%) |
| **Total group** | **68.2** | **0.4** | **–** | **(8.4)** | **60.2** | **0.6%** |

Table 2 presents separately the FUMA, and associated movements, in those services and products which support our wealth management solutions from asset management products and other services. Wealth management FUMA incorporates our bespoke discretionary portfolio and managed portfolio services. It also includes direct sales into our range of risk-targeted multi-asset funds, which are designed to be used as wealth management solutions for clients of investment platforms and financial advisers. Asset management FUMA includes our focused range of specialist 'single-strategy' funds, which are designed to act as individual holdings within investment portfolios.

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

## OPERATING INCOME

Operating income increased by £20.0 million in 2022 to £455.9 million, predominantly due to a full year of Saunderson House income which contributed £23.4 million of this additional income.

Investment management and funds fee income of £337.0 million in 2022 decreased by 3.5%, as a result of lower funds under management and administration in the year. This represented 73.9% of operating income in 2022, down from 80.2% in 2021, reflecting the increase in financial planning and advisory income of £51.6 million for the full year (2021: £29.0 million).

Net commission income fell 9% to £48.8 million in 2022 (2021: £53.6 million) despite a broadly consistent level of transaction activity. The reduction reflects an increasing proportion of our client base being on fee-only mandates, and therefore not being separately charged for transactions.

Net interest income increased by 369% to £18.3 million, reflecting the Bank of England base rates increasing from 0.25% at the start of 2022, to 3.5% by the end of December 2022, and highlighting the benefit of our banking structure.

## UNDERLYING OPERATING EXPENSES

Underlying operating expenses increased by £43.6 million (13.8%) to £358.8 million. Underlying operating expenses exclude expenditure falling into the categories explained under table 3. Over half of this increase reflects a full-year of operating expenditure for Saunderson House, acquired in October 2021, at £27.2 million (2021: £5.0 million). A further £16.3 million of the increase is year 1 of the strategic investment in developing our digital capability. Excluding these increases, expenditure increased by £5.1 million in the year.

Higher fixed staff costs in the year of £28.7 million, which include £12.9 million for the full year impact of Saunderson House and £2.4 million of spend on the group's digital strategy, are in line with expected headcount growth and salary inflation. This was partly offset by lower variable staff costs of £3.1 million, which was driven by reduced profit share and bonuses, reflecting the market conditions during 2022.

Non-staff costs increased by £18.0 million in the year, which includes £5.8 million for a full year of costs for Saunderson House and £13.5 million of expenditure on the group's digital programme. Excluding the impact of these, non-staff costs fell by £1.3 million in the year, mainly due to a £2.2 million reduction in the FSCS levy (total charge in 2022 for the group of £5.3 million). Other costs remain broadly consistent with 2021, demonstrating a focus on controlling discretionary spend in an inflationary environment.

Including Saunderson House, average headcount increased by 18.1% to 2,053 in 2022. The full-year effect of Saunderson House accounted for 9.2%, with the remaining headcount increases being largely in client-facing, client experience and change delivery teams.

Total operating expenses increased from £340.9 million to £391.8 million during the year, with £22.2 million of the increase solely due to a full-year of Saunderson House (2021: £5.0 million.

### TABLE 3. RECONCILIATION OF UNDERLYING PERFORMANCE MEASURES TO CLOSEST EQUIVALENT IFRS MEASURES

| | **2022 £m (unless stated)** | 2021 £m (unless stated) |
|---|---|---|
| Operating income | **455.9** | 435.9 |
| - Operating expenses (excluding digital change spend)[1] | **(375.5)** | (340.9) |
| - Digital transformation change spend[1] | **(16.3)** | 0.0 |
| Total operating expenses | **(391.8)** | (340.9) |
| Charges in relation to client relationships and goodwill | **19.5** | 15.6 |
| Acquisition-related costs | **13.5** | 10.1 |
| Underlying operating expenses | **(358.8)** | (315.2) |
| Profit before tax | **64.1** | 95.0 |
| Underlying profit before tax[2] | **97.1** | 120.7 |
| | | |
| Operating margin | **14.1%** | 21.8% |
| Underlying operating margin[3] | **21.3%** | 27.7% |
| Taxation | **(15.1)** | (19.8) |
| Tax on non-underlying expenses | **(5.3)** | (3.9) |
| Underlying taxation | **(20.4)** | (23.7) |
| Profit after tax | **49.0** | 75.2 |
| Underlying profit after tax[4] | **76.7** | 97.0 |
| Weighted average number of shares in issue | **58.6m** | 56.3m |
| Earnings per share (p) | **83.6** | 133.5 |
| Underlying earnings per share (p)[5] | **130.8** | 172.2 |
| Quarterly average total equity | **632.7** | 579.0 |
| Underlying quarterly average total equity | **650.4** | 599.1 |
| ROCE[6] | **7.7%** | 13.0% |
| Underlying ROCE[7] | **11.8%** | 16.1% |

1. Operating expenses adjusted for £16.3 million of costs incurred on the group's digital strategy in 2022
2. Operating income less underlying operating expenses
3. Underlying profit before tax as a percentage of operating income
4. Underlying profit before tax less underlying taxation
5. Underlying profit after tax divided by the weighted average number of shares in issue
6. Profit after tax as a percentage of quarterly average total equity
7. Underlying profit after tax as a percentage of underlying quarterly average total equity

## ALTERNATIVE PERFORMANCE MEASURES

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

Client relationship intangible assets are recognised when we acquire a business or hire a team of investment managers.

The charges associated with these assets represent the proportion of the cost of securing client contracts that is charged to profit or loss as amortisation each year over the estimated duration of the client relationships. The quantum of the accounting charge will vary depending on the terms of each individual acquisition or team hire and represents a significant non-cash profit and loss item. They are therefore excluded from underlying profit, which represents largely cash-based earnings and more directly relates to the financial reporting period. Research analysts commonly exclude these costs when comparing the performance of firms in the wealth management industry.

### Acquisition-related costs (note 5)

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

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

Deferred acquisition costs are generally significant payments that are capital in nature reflecting the transfer of ownership of the business. However, in accordance with IFRS 3, any deferred consideration payments to former shareholders of the acquired business who are required to remain in employment with the group must be treated as remuneration.

During 2022, £3.5 million of deferred consideration payments for Speirs & Jeffrey (2021: £6.0 million) were charged to the income statement. £6.5 million of deferred consideration payments for Saunderson House (2021: £1.4 million) and £3.4 million of integration costs were charged to the income statement (2021: £nil).

## TAXATION

The corporation tax charge for 2022 was £15.1 million (2021: £19.8 million) (see note 6). The effective tax rate was 23.5% (2021: 20.8%).

From 2023, the effective tax rate is expected to be 4-5 percentage points above the statutory rate, largely due to disallowable costs for deferred consideration payments.

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

## BASIC EARNINGS PER SHARE

Basic earnings per share for the year ended 31 December 2022 was 83.6p compared to 133.5p in 2021. On an underlying basis, earnings per share were 130.8p in 2022, compared to 172.2p in 2021 (see note 12). The decrease in the year relates to the fall in underlying profit since 2021 and an increase in the number of shares in issue.

## RETURN ON CAPITAL EMPLOYED

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

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

In 2022, underlying ROCE was 11.8% (2021: 16.1%). Underlying quarterly average total equity increased by £51.4 million in 2022 compared to 2021, reflecting growth in retained earnings and a full year impact of the share placing that took place in the second quarter of 2021.

## OUTLOOK

The Group's financial performance remains closely linked to the behaviour of global investment markets, which are expected to remain fragile in 2023 even as the outlook for inflation has moderated. Income sources that include increased net interest income and growing financial planning income support more stable operating income that not only delivers strong returns for shareholders, but also enables us to continue to invest productively for growth.

Employee costs in 2023 will reflect salary inflation of approximately 5-6% plus the full impact of hiring activity in 2022. A lower rate of net hiring is expected for 2023 as we continue implementation phases of our strategic initiatives, whilst ever focused on cost discipline whilst in an inflationary environment.

From July 2023, the countercyclical buffer, as set by the FPC, is expected to increase to 2% for UK exposures. The group currently expects its relevant credit exposures to require an increase of £16 million to group capital requirement.

As set out in 2022, investment in our medium-term strategy will continue in 2023, most notably the ongoing integration of Saunderson House and delivering technology to embed a digital capability that improves client experience and promotes growth. We remain on track to invest a total of £40m. From 2024, our aim remains to return to an operating margin in the high 20's. In light of ongoing market fragility and the continuation of the investment in our digital programme throughout 2023, we expect to deliver a similar margin to 2022.

We continue to anticipate total integration and deferred acquisition costs of £10 million associated with Saunderson House, which will then substantially reduce as the integration completes in 2024. Financial synergies from the integration of Saunderson House are expected to start in 2023, with a full annualised impact in 2024.

Rathbones is financially well placed, with a strong balance sheet to take advantage of opportunities in 2023.

# SEGMENTAL REVIEW

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

**Table 4. Reconciliation of service levels to segmental presentation**

| | Investment Management FUMA (including intra-group holdings) £bn | Intra-group holdings[1] £bn | Investment Management FUMA £bn | Funds FUMA £bn | Group FUMA £bn |
|---|---|---|---|---|---|
| Discretionary service | 44.3 | (2.3) | 42.0 | 2.4 | 44.4 |
| Bespoke portfolios | 42.9 | (1.0) | 41.9 | 1.0 | 42.9 |
| Managed via in-house funds | 1.4 | (1.3) | 0.1 | 1.4 | 1.5 |
| Multi-asset funds | – | – | – | 2.1 | 2.1 |
| **Total discretionary & managed** | **44.3** | **(2.3)** | **42.0** | **4.5** | **46.5** |
| Non-discretionary service | 0.7 | – | 0.7 | – | 0.7 |
| **Total wealth management** | **45.0** | **(2.3)** | **42.7** | **4.5** | **47.2** |
| Single-strategy funds | – | – | – | 6.5 | 6.5 |
| Execution only & banking | 2.4 | – | 2.4 | – | 2.4 |
| **Total** | **47.4** | **(2.3)** | **45.1** | **11.0** | **56.1** |
| Saunderson House | 4.1 | – | 4.1 | – | 4.1 |
| **Total group** | **51.5** | **(2.3)** | **49.2** | **11.0** | **60.2** |

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

## INVESTMENT MANAGEMENT

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

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

## FUNDS UNDER MANAGEMENT AND ADMINISTRATION

Year-on-year changes in the key performance indicators for Investment Management are shown in table 5. Investment Management funds under management and administration decreased by 10.9% to £49.2 billion as at 31 December 2022, impacted by economic uncertainty and worldwide volatility in the markets.

CHART 1. INVESTMENT MANAGEMENT – NUMBER OF CLIENTS AND INVESTMENT MANAGERS

## TABLE 5. INVESTMENT MANAGEMENT – KEY PERFORMANCE INDICATORS

| | 2022 | 2021 |
|---|---|---|
| Funds under management and administration at 31 December | **£49.2bn** | £55.2bn |
| Rate of net organic growth in Investment Management funds under management and administration[1] | **1.1%** | 1.8% |
| Rate of total net growth in Investment Management funds under management and administration[1] | **1.2%** | 2.1% |
| Average net operating basis point return[2] | **72.4 bps** | 71.4 bps |
| Number of Investment Management clients ('000) | **68** | 66 |
| Number of investment managers | **352** | 332 |

1. See table 6 (percentages calculated on unrounded figures)
2. See table 10

## TABLE 6. INVESTMENT MANAGEMENT – FUNDS UNDER MANAGEMENT AND ADMINISTRATION

| | Year ended 31 December 2022 £bn | Year ended 31 December 2021 £bn |
|---|---|---|
| As at 1 January | **50.3** | 44.9 |
| Inflows | **3.8** | 4.5 |
| organic[1] | **3.8** | 4.4 |
| acquired[2] | **0.0** | 0.1 |
| Outflows | **(3.2)** | (3.6) |
| Market adjustment[3] | **(5.8)** | 4.5 |
| Total | **45.1** | 50.3 |
| Saunderson House | **4.1** | 4.9 |
| Total group | **49.2** | 55.2 |
| Net organic new business[4] | **0.6** | 0.8 |
| Rate of net organic growth[5] | **1.1%** | 1.8% |
| Rate of total net growth[6] | **1.2%** | 2.1% |

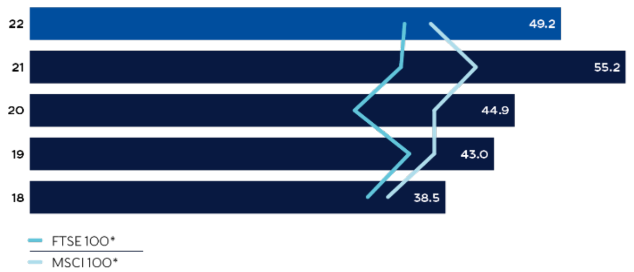
1. Value at the date of transfer in/(out)
2. Value at date of acquisition
3. Represents the impact of market movements and investment performance
4. Organic inflows less outflows
5. Net organic new business (excluding Saunderson House) as a percentage of opening funds under management and administration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

Table 6 reconciles the movement in funds under management and administration during the year. Inflows of £3.8 billion are dominated by new funds into our discretionary bespoke portfolio service, which has benefited during the year from resilient investment performance, positive client experience, and our revised Reliance on Advisor proposition. Outflows of £3.2 billion represent 6.4% of opening funds under management and administration, 59.0% of which represents drawings from capital to supplement income or inter-generational transfers. In significant contrast to 2021, the PIMFA MSCI reduced by 10.2% in 2022, driving a £5.8 billion reduction in funds under management and administration.

In addition to the above, Saunderson House contributed £4.1 billion to closing funds under management and advice in 2022. At the year end, FUMA on Vision Independent Financial Planning's discretionary wealth management platform that was not managed by the group totalled £0.8 billion (2021: £0.8 billion).

CHART 2. INVESTMENT MANAGEMENT – FUNDS UNDER MANAGEMENT AND ADMINISTRATION FIVE YEAR GROWTH (£BN)

49.2




* Index figures show how funds under management and administration would have changed between 2018 and 2022 if they had tracked each index

Table 7 provides an analysis of funds under management and new business by channel and service level. 40% of the total £0.9 billion growth in discretionary and managed funds under management and administration in the year was driven through direct interactions with the client, whilst the remaining 60% includes interactions through financial adviser networks.

The group experienced net outflows from non-discretionary investment management, and execution-only and banking mandates totalling £0.3 billion in the year.

During the year, clients continued to migrate into discretionary services from non-discretionary (£0.1 billion). Switches into execution-only services largely reflect the transfer of funds into probate following the death of a client (£0.3 billion).

### TABLE 7. INVESTMENT MANAGEMENT – NEW BUSINESS BY CHANNEL

| | Opening FUM (£m) | Net flows (£m) | Service level transfers (£m) | Market movement (£m) | 2022 Gross £bn | 2022 Intra-group holdings[1] £bn | 2022 Net £bn | 2021 Net £bn |
|---|---|---|---|---|---|---|---|---|
| Bespoke portfolios | 37.2 | 0.3 | (0.4) | (4.1) | 33.0 | | | |
| Managed via in-house funds | 0.6 | 0.0 | 0.1 | 0.0 | 0.7 | | | |
| **Total direct** | **37.8** | **0.3** | **(0.3)** | **(4.1)** | **33.7** | | | |
| Bespoke portfolios | 10.8 | 0.5 | 0.0 | (1.4) | 9.9 | | | |
| Managed via in-house funds | 0.6 | 0.1 | 0.1 | (0.1) | 0.7 | | | |
| **Total financial adviser linked** | **11.4** | **0.6** | **0.1** | **(1.5)** | **10.6** | | | |
| **Total discretionary & managed** | **49.2** | **0.9** | **(0.2)** | **(5.6)** | **44.3** | **(2.3)** | **42.0** | 46.6 |
| Non-discretionary service | 1.0 | (0.1) | (0.2) | (0.0) | 0.7 | | 0.7 | 1.0 |
| **Total wealth management** | **50.2** | **0.8** | **(0.4)** | **(5.6)** | **45.0** | **(2.3)** | **42.7** | 47.6 |
| Execution only & banking | 2.7 | (0.3) | 0.3 | (0.3) | 2.4 | | 2.4 | 2.7 |
| Saunderson House | 4.9 | (0.2) | (0.0) | (0.6) | 4.1 | | 4.1 | 4.9 |
| **Total Investment Management** | **57.8** | **0.3** | **(0.1)** | **(6.5)** | **51.5** | **(2.3)** | **49.2** | 55.2 |

1. Holdings of the group's in-house funds in Investment Management client portfolios and in-house funds for which the management of the assets is undertaken by Investment Management teams; the corresponding funds under management and administration is reported within Funds
2. Direct net flows relate to direct interactions with the client, whilst net flows from financial advisor linked relate to interactions through financial adviser networks

Inflation across the world's most advanced economies hit a rate in December 2022 not seen since 1982. In 2022, core inflation – which excludes energy and food prices – hit a 40-year high and continued to rise until the autumn.

The macro-economic environment has shifted significantly more than many commentators expected twelve months ago. The market generally expected the US Federal Reserve to raise interest rates by just 0.75% throughout 2022, in comparison to an actual increase in rates of 4.25% - the sharpest increase since the early 1980s. It is highly unusual for equity markets to fall over the first 12 months of a rate tightening cycle, but we saw an inflationary bear market emerge.

There have been two key equity market sector trends. First, the underperformance of cyclical sectors and the outperformance of steadier defensive ones, particularly those able to pass on higher input costs to customers. Second, the de-rating of expensive 'Growth' companies, particularly technology stocks yet to make a profit, and the resilience of cheaper sectors such as financials, energy and healthcare. A global benchmark of 'Value' companies ended the year down 6% compared to the 28% loss in 'Growth' companies.

Overall, 2022 was another strong year for our specialist teams. Rathbone Greenbank Investments continued to grow its net new business, despite the segment being most impacted by market volatility, and reached funds under management and administration of £1.9 billion at 31 December 2022 (2021: £2.2 billion). The Personal Injury and Court of Protection business ended 2022 with £1.0 billion of funds under management and administration (2021: £1.0 billion).

Rathbone Financial Planning also saw a strong year in 2022, increasing net new business growth by 26% from 2021, and maintaining funds under management and administration broadly in line with 2021 of £1.6 billion as at 31 December 2022, despite market falls.

As at 31 December 2022, Vision Independent Financial Planning advised on client assets of £2.6 billion (2021: £2.7 billion). Despite net new business inflows of £0.3 billion in the year, market movements offset this, resulting in a £0.1 billion reduction in total client assets at the year end.

Saunderson House closed the year with funds under management and administration of £4.1 billion (2021: £4.9 billion). £0.5 million of the fall in the year was driven by adverse market movements. Client attrition was largely in-line with expectations, reflecting net outflows of £0.2 billion, as focus switched to existing client migration rather than new client wins. The new Saunderson House proposition is now fully developed, and as at the year-end approximately one third of clients, by asset value, had been contacted to initiate the process of switching to the new proposition.

## FINANCIAL PERFORMANCE

Underlying profit before tax in Investment Management reduced by 28.2% in the year to £70.7 million, reflecting an underlying operating margin of 18.0%, which, when adjusted for £16.3 million of operating expenses to deliver the group's digital strategy, rises to 22.1%.

Lower average funds under management and administration on our principal charging dates during 2022 (see table 9) impacted investment management fee income, causing a 4.6% reduction compared to 2021.

Net commission income fell by 8.8% to £48.9 million (2021 £53.6 million), as the proportion of our client base becomes increasingly fee-only.

The increase in base rates set by the Bank of England from 0.25% at the start of 2022 to 3.5% by December 2022 contributed an additional £13.9 million to net interest income in the year.

Fees from advisory services and other income increased 88.3% to £51.4 million, reflecting a full-year's impact of Saunderson House, which contributed £23.4 million of additional revenue. Rathbone Financial Planning, Vision, and the Trust business have contributed an additional £0.7 million to advisory income year-on-year.

Underlying operating expenses during the year were £322.3 million; an increase of 17.4% on the prior year, largely reflecting the impact of Saunderson House and £16.3 million of costs incurred on the group's digital strategy in 2022 (see table 11).

### TABLE 8. INVESTMENT MANAGEMENT – FINANCIAL PERFORMANCE

| | 2022 £m | 2021 £m |
|---|---|---|
| Net investment management fee income[1] | **274.9** | 288.1 |
| Net commission income | **48.9** | 53.6 |
| Net interest income | **17.8** | 3.9 |
| Fees from advisory services[2] and other income | **51.4** | 27.3 |
| Operating income | **393.0** | 372.9 |
| Underlying operating expenses[3 4] | **(322.3)** | (274.5) |
| Underlying profit before tax | **70.7** | 98.4 |
| Underlying operating margin[5] | **18.0%** | 26.4% |

1. Net investment management fee income is stated after deducting fees and commission expenses paid to introducers
2. Fees from advisory services includes income from trust, tax and financial planning services (including Vision and Saunderson House)
3. See table 11
4. Included within underlying operating expenses are £16.3 million of costs relating to the group's digital strategy, of which £1.5 million relates to asset management
5. Underlying profit before tax as a percentage of operating income. Excluding £16.3 million of expenditure on our digital strategy in the year, the underlying operating margin was 22.1%

### TABLE 9. INVESTMENT MANAGEMENT – AVERAGE FUNDS UNDER MANAGEMENT AND ADMINISTRATION

| | 2022 £bn | 2021 £bn |
|---|---|---|
| Valuation dates for billing | | |
| – 5 April | **47.9** | 45.5 |
| – 30 June | **43.8** | 47.8 |
| – 30 September | **43.2** | 48.8 |
| – 31 December | **45.1** | 50.3 |
| Quarterly average[1] | **45.0** | 48.1 |
| Average FTSE 100 level[2] | **7,282** | 7,066 |

1. Quarterly average funds under management and administration excluding Saunderson House
2. Based on the corresponding valuation dates for billing

### TABLE 10. INVESTMENT MANAGEMENT – REVENUE MARGIN

| | 2022 bps | 2021 bps |
|---|---|---|
| Basis point return[1] from: | | |
| – fee income | **61.1** | 59.9 |
| – commission | **10.8** | 11.1 |
| – interest | **0.5** | 0.4 |
| Basis point return on funds under management and administration | **72.4** | 71.4 |

1. Operating income (see table 8), excluding interest on own reserves, interest payable on Tier 2 notes issued, interest payable on lease assets, fees from advisory services and other income, divided by the average funds under management and administration on the quarterly billing dates (see table 9)

Fixed staff costs of £109.5 million increased by 22.6% year-on-year, reflecting the growth in headcount and a full year's cost for Saunderson House of £15.9 million (2021: £3.0 million - acquired in October 2021). Variable staff costs totalled £66.9 million in 2022, an increase of 8.1% on 2021, driven by the inclusion of Saunderson House staff, as well as new employee share plans.

Other operating expenses of £145.9 million include property, depreciation, settlement, IT, finance and other central support services costs.

The basis point return on funds under management and administration increased by 1.0 in the year to 72.4, as adverse market movements reduced the value of client portfolios, thereby increasing the proportion of funds in lower value, but higher cost tiers.

### TABLE 11. INVESTMENT MANAGEMENT – UNDERLYING OPERATING EXPENSES

| | 2022 £m | 2021 £m |
|---|---|---|
| Staff costs[1] | | |
| – fixed | **109.5** | 89.3 |
| – variable | **66.9** | 61.9 |
| Total staff costs | **176.4** | 151.2 |
| Other operating expenses | **145.9** | 123.3 |
| Underlying operating expenses | **322.3** | 274.5 |
| Underlying cost/income ratio[2] | **82.0%** | 73.6% |

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

## FUNDS

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

### FUNDS UNDER MANAGEMENT

From setting sales records in 2021, 2022 was a tough year for the industry. Net retail redemptions in the asset management industry totalled £25.7 billion, as reported by the Investment Association (IA), down £69.3 billion from £43.6 billion of net sales in 2021. Industry-wide funds under management fell 13.8% to £1.4 trillion at the end of the year.

Gross sales in Rathbone Unit Trust Management ('the company') fell 30% from £4.4 billion to £3.1 billion in 2022. Rising inflation and interest rates coupled with concerns about equity market valuations and the conflict in Ukraine left investors unsure where to turn. The impact of this meant growth focused, single-strategy funds, including Rathbones' biggest funds, struggled for performance and sales growth in 2022.

Many investors also decided to withdraw their cash leading to increased gross redemptions of £2.9 billion (2021: £2.3 billion), which adversely impacted total funds managed by the Company over the course of the year. In addition to this, £0.2 billion of 'Other funds' (table 13) were transferred out from the Company to an independent Authorised Corporate Director as a result of a strategic decision, but continued to be managed by the Group.

Muted 2022 inflows combined with severe market movements, especially in corporate bonds and growth-oriented securities, which affected our mix of products, meant total funds under management fell to £11.0 billion at the end of 2022, a decrease of 15.4% during the year (see table 14).

### TABLE 12. FUNDS – KEY PERFORMANCE INDICATORS

| | 2022 | 2021 |
|---|---|---|
| Funds under management at 31 December[1] | **£11.0bn** | £13.0bn |
| Rate of net growth in Unit Trusts funds under management[1] | **0.4%** | 21.1% |
| Underlying profit before tax[2] | **£26.4m** | £22.4m |

1. See table 14
2. See table 16

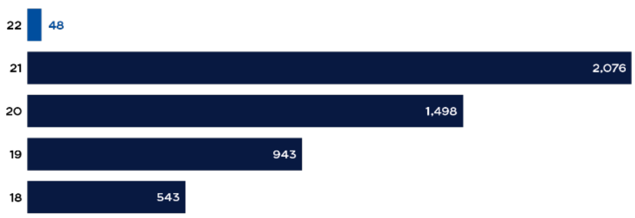
### TABLE 13. FUNDS – FUNDS UNDER MANAGEMENT BY PRODUCT

| | 2022 £m | 2021 £m |
|---|---|---|
| Rathbone Global Opportunities Fund | **3,361** | 4,334 |
| Rathbone Multi-Asset Portfolios | **3,043** | 2,679 |
| Rathbone Ethical Bond Fund | **2,169** | 2,802 |
| Rathbone Income Fund | **741** | 825 |
| Offshore funds | **549** | 661 |
| Rathbone Active Income Fund for Charities | **216** | 245 |
| Rathbone High Quality Bond Fund | **206** | 291 |
| Greenbank Multi-Asset Portfolios | **168** | 105 |
| Other funds[1] | **149** | 500 |
| Rathbone Core Investment Fund for Charities | **147** | 156 |
| Rathbone Strategic Bond Fund | **138** | 200 |
| Rathbone Global Sustainability Fund | **69** | 116 |
| Rathbone UK Opportunities Fund | **49** | 76 |
| | **11,005** | 12,990 |

1. £213 million of 'Bespoke' other funds transferred out during the year post the switch of Authorised Corporate Director (ACD) from Rathbone Unit Trust Management Limited to Evelyn Partners, an independent ACD

CHART 3. FUNDS – ANNUAL NET FLOWS (£M)

48




Despite adverse market conditions, Rathbones featured in the Pridham Report industry top ten for net retail sales in all 4 quarters of 2022 as well as net retail sales for the year.

Volatility managed funds (multi-asset portfolios) were the IA's top net seller in 2022 with £2.9 billion of net sales and this trend was mirrored in Rathbones which accounted for 24% of the industry total, with net sales in the year, totalling £0.7 billion, down only £0.1 billion when compared to 2021.

The IA Global sector which was the highest selling equity sector for the previous four years in a row, suffered net redemptions of £2.9 billion. This sector contains the Company's largest fund, Rathbone Global Opportunities Fund, which saw a net £77 million outflow from the fund over the course of the year. Rathbone Global Opportunities Fund also suffered the greatest loss from market adjustments, due to its growth bias, accounting for £900 million of the Company's £2 billion total.

Rathbone Ethical Bond Fund suffered from net redemptions in the year (£129 million), due to the significant interest rate rises brought on by market uncertainty. The fund also contributed £0.5 billion to the adverse market adjustment total in 2022.

The Ethical Bond and Global Opportunities funds maintained their excellent industry long-term track performance records and both finished the year in the first quartile for performance measured for five years, which is a key factor in investors' decision-making.

As at 31 December 2022, 98% of holdings in Funds' retail funds were in institutional units (2021: 97%).

During the year, the total number of investment professionals running the funds increased to 24 at 31 December 2022 (2021: 21).

## TABLE 14. FUNDS – FUNDS UNDER MANAGEMENT

| | 2022 £bn | 2021 £bn |
|---|---|---|
| As at 1 January | **13.0** | 9.8 |
| Net inflows | **(0.0)** | 2.1 |
| – inflows[1] | **3.1** | 4.4 |
| – outflows[1] | **(2.9)** | (2.3) |
| – Bespoke[2] | **(0.2)** | 0.0 |
| Market adjustments[3] | **(2.0)** | 1.1 |
| As at 31 December | **11.0** | 13.0 |
| Rate of net growth[4] | **0.4%** | 21.1% |

1. Valued at the date of transfer in/(out)
2. Bespoke funds transferred out during the year post the switch of Authorised Corporate Director ("ACD") from Rathbone Unit Trust Management Limited to Evelyn Partners, an independent ACD
3. Impact of market movements and relative performance
4. Net inflows as a percentage of opening funds under management

## TABLE 15. FUNDS – PERFORMANCE[1, 2]

| 2022/(2021) Quartile ranking[3] over | 1 year | 3 years | 5 years |
|---|---|---|---|
| Rathbone Ethical Bond Fund | 2 (1) | 2 (1) | 1 (1) |
| Rathbone Global Opportunities Fund | 4 (2) | 2 (1) | 1 (1) |
| Rathbone Income Fund | 2 (2) | 2 (2) | 2 (2) |
| Rathbone Strategic Bond Fund | 3 (3) | 3 (3) | 3 (2) |
| Rathbone UK Opportunities Fund | 4 (1) | 4 (1) | 4 (1) |

1. Quartile ranking data is sourced from FE Trustnet
2. Excludes multi-asset funds (for which quartile rankings are prohibited by the Investment Association (IA)), High Quality Bond Fund, which has no relevant peer group against which to measure quartile performance, non-publicly marketed funds and segregated mandates
3. Ranking of institutional share classes at 31 December 2022 and 2021 against other funds in the same IA sector, based on total return performance, net of fees (consistent with investment performance information reported in the funds' monthly factsheets)
4. Funds included in the above table account for 59% of the total FUM of the Funds business

## FINANCIAL PERFORMANCE

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

Net annual management charges increased slightly to £62.2 million in 2022, driven principally by the rise in average funds under management. Despite the fall in funds under management at year end, the mean average for 2022 was £265 million higher than in 2021. Net annual management charges as a percentage of average funds under management fell by 0.3bps to 54.8 bps (2021: 55.0 bps), due to a change in the mix of fund types. Despite higher net annual management charges, interest and other income fell by £1.0 million in the year. As a result, total operating income as a percentage of average funds under management fell to 54.7 bps in 2022 from 55.6 bps in 2021.

Fixed staff costs of £6.9 million for the year ended 31 December 2022 were £1.7 million higher than 2021. This reflects salary increases post benchmarking versus peers, a rebalancing of variable pay to fixed pay and general inflationary rises.

Variable staff costs of £11.2 million were 33% lower than 2021 resulting from the remuneration benchmarking exercise mentioned above and a drop in the value of gross sales, which drove a reduction in sales commissions.

Other operating expenses have fallen by 1.6% to £18.4 million in 2022. Administration costs of £5.3 million were down £0.4 million on 2021, driven by reducing levels of funds under management and flows, as well as improved rate cards with third-party service providers which were negotiated and implemented early in the year. Regulatory costs fell by £0.2 million, reflecting the drop in levies for the Financial Services Compensation Scheme.

### TABLE 16. FUNDS – FINANCIAL PERFORMANCE

| | 2022 £m | 2021 £m |
|---|---|---|
| Net annual management charges | **62.2** | 61.3 |
| Interest and other income | **0.8** | 1.8 |
| Operating income | **63.0** | 63.1 |
| Underlying operating expenses[1] | **(36.6)** | (40.7) |
| Underlying profit before tax | **26.4** | 22.4 |
| Operating % margin[2] | **41.9%** | 35.5% |

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

### TABLE 17. FUNDS – UNDERLYING OPERATING EXPENSES

| | 2022 £m | 2021 £m |
|---|---|---|
| Staff costs | | |
| – Fixed | **6.9** | 5.2 |
| – Variable | **11.2** | 16.8 |
| Total staff costs | **18.1** | 22.0 |
| Other operating expenses | **18.4** | 18.7 |
| Underlying operating expenses | **36.5** | 40.7 |
| Underlying cost/income ratio[1] | **57.9%** | 64.5% |

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

# FINANCIAL POSITION

## OWN FUNDS

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

At 31 December 2022, the group's regulatory own funds (including verified profits for the year) were £338.7 million (2021: £304.7 million). The increase in the year of £34.0 million was due to a £19.0 million increase in share capital and share premium and a £8.4 million increase in reserves (see table 19), largely reflecting the impact of the group's equity-settled employee remuneration plans. In addition to this, the deduction from capital for intangible assets was £18.1 million lower in the year, as these are amortised over their useful life. This was partly offset by a £15.9 million increase in the own shares deduction from capital, as the group continued to repurchase shares to satisfy the vesting of future employee share plans.

The increase in own funds was offset by a greater increase in the group's total capital requirement and combined buffers by £38.7 million, resulting in a capital surplus at the end of 2022 of £110.3 million, down from £115.0 million in 2021.

The CET1 ratio was 17.9%, a decrease on the 18.7% reported at the previous year-end, owing to an increase in the Pillar 1 own funds requirement, which was driven largely by an increase in the credit risk requirement (see table 20).

The leverage ratio was 17.6% at 31 December 2022, up from 9.1% at 31 December 2021. The leverage ratio represents our Tier 1 capital as a percentage of our total assets, excluding intangible assets, plus certain off-balance sheet exposures. The significant increase in the year is due to central bank balances being excluded from the denominator in the calculation from January 2022 onwards, as per the PRA's review of the UK leverage ratio framework under Policy Statement 21/21. Metrics for the prior year have not been restated.

At 31 December 2022, neither Rathbones Investment Management nor the Rathbones Group were subject to a minimum leverage ratio requirement, although monitoring is undertaken on a regular basis against the minimum leverage requirement of 3.25% which applies to larger banks.

The business is primarily funded by equity, but also supported by £39.9 million of ten-year tier 2 eligible subordinated loan notes, which were issued in October 2021. The notes introduce a small amount of gearing into our balance sheet as a way of financing future growth in a cost-effective and capital-efficient manner. They are repayable in October 2031, with a call option for the issuer annually from 2026. Interest is payable at a fixed rate of 5.642%.

Total equity was £635 million at 31 December 2022, up 1.9% from £623 million at the end of 2021.

## OWN FUNDS AND LIQUIDITY REQUIREMENTS

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

We are required to hold capital to cover a range of own funds requirements.

### TABLE 18. GROUP'S FINANCIAL POSITION

| | **2022 £m (unless stated)** | 2021 £m (unless stated) |
|---|---|---|
| Own funds: | | |
| – Common Equity Tier 1 ratio[1] | **17.9%** | 18.7% |
| – Total own funds ratio[2] | **20.3%** | 21.4% |
| – Total retained earnings | **297.2** | 288.8 |
| – Tier 2 subordinated loan notes[3] | **39.9** | 39.9 |
| – Total risk exposure amount | **1,666.8** | 1,424.5 |
| – Leverage ratio[4] | **17.6%** | 9.1% |
| Other resources: | | |
| – Total assets | **3,447.2** | 3,271.8 |
| – Treasury assets[5] | **2,664.1** | 2,458.5 |
| – Investment Management loan book | **159.7** | 168.0 |
| – Intangible assets from acquired growth[6] | **342.7** | 361.2 |
| – Tangible assets and software[7] | **26.2** | 28.0 |
| – Liabilities: | | |
| – Due to customers[8] | **2,516.1** | 2,333.0 |
| – Net defined benefit pension asset/(liability) | **9.4** | 12.3 |

1. Common Equity Tier 1 capital as a proportion of total risk exposure amount
2. Total own funds (see table 19) as a proportion of total risk exposure amount
3. Represents the carrying value of the Tier 2 loan notes
4. Tier 1 capital as a percentage of total assets, excluding intangible assets, plus certain off balance sheet exposures
5. Balances with central banks, loans and advances to banks and investment securities
6. Net book value of acquired client relationships and goodwill (note 8)
7. Net book value of property, plant and equipment and computer software
8. Total amounts of cash in client portfolios held by Rathbones Investment Management as a bank

### TABLE 19. GROUP'S REGULATORY OWN FUNDS

| | 2022 £m | 2021 £m |
|---|---|---|
| Share capital and share premium | **313.1** | 294.1 |
| Reserves | **374.2** | 365.8 |
| Less: | | |
| Own shares | **(52.5)** | (36.6) |
| Intangible assets[1] | **(326.7)** | (344.8) |
| Retirement benefit asset[2] | **(9.4)** | (12.3) |
| Common Equity Tier 1 own funds | **298.7** | 266.2 |
| Tier 2 own funds | **40.0** | 38.5 |
| Total own funds | **338.7** | 304.7 |

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

### TABLE 20. GROUP'S OWN FUNDS REQUIREMENTS[1]

| | 2022 £m | 2021 £m |
|---|---|---|
| Credit risk requirement | **66.3** | 50.9 |
| Market risk requirement | **1.1** | 0.8 |
| Operational risk requirement | **65.9** | 62.3 |
| Pillar 1 own funds requirement | **133.3** | 114.0 |
| Pillar 2A own funds requirement | **40.0** | 40.1 |
| Total Capital Requirement ('TCR') | **173.3** | 154.1 |
| Combined buffer: | | |
| – capital conservation buffer (CCB) | **41.6** | 35.6 |
| – countercyclical capital buffer (CCyB) | **13.5** | 0.0 |
| Total Capital Requirement ('TCR') and Combined buffer | **228.4** | 189.7 |

| | 2022 £m | 2021 £m |
|---|---|---|
| Total capital surplus | **110.3** | 115.0 |

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

## PILLAR 1 – MINIMUM REQUIREMENT FOR CAPITAL

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

The increase in credit risk to £66.3 million in 2022 was due to a revised allocation of the group's treasury assets, and a capital deduction under CRDV (effective from January 2022) for the total value of the group's listed equity securities.

At 31 December 2022, the group's total risk exposure amount was £1,666.8 million (2021: £1,424.5 million).

## PILLAR 2 – SUPERVISORY REVIEW PROCESS

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

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

### PENSION OBLIGATION RISK

The potential for additional unplanned capital strain or costs that the group would incur in the event of a significant deterioration in the funding position of the group's defined benefit pension schemes. See note 10 for further detail on the movement in the year to the net defined benefit pension asset.

## PILLAR 2A

### INTEREST RATE RISK IN THE BANKING BOOK

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

### CONCENTRATION RISK

Greater potential exposure as a result of the concentration of borrowers located in the UK than other overseas jurisdictions.

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

### CAPITAL CONSERVATION BUFFER (CCB)

The CCB is a general buffer, designed to provide for losses in the event of a stress, and represents 2.5% (as set by the PRA) of the group's total risk exposure amount as at 31 December 2022.

### COUNTERCYCLICAL CAPITAL BUFFER (CCYB)

The CCyB is designed to act as an incentive for banks to constrain credit growth in times of heightened systemic risk. The amount of the buffer is determined by reference to rates set by the Financial Policy Committee ('FPC') (for UK exposures) and other jurisdictions for our exposures to their locations, and for individual countries where the group has credit risk exposures.

The buffer rate is currently set by the FPC at 1% for UK exposures (effective December 2022). The group has relevant credit exposures in other jurisdictions, some of which have set buffer rates for exposures to those countries, resulting in a weighted buffer rate of 0.8% as at 31 December 2022. An increased UK rate of 2% is expected to come into effect from July 2023, which has been built into our forecasts.

### CAPITAL MANAGEMENT

In managing the group's regulatory capital position, we continue to be mindful of:

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

We keep these issues under review by forecasting capital and liquidity on a monthly basis, whilst taking into account all known macro-economic and idiosyncratic changes.

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

## TOTAL ASSETS

Total assets at 31 December 2022 were £3.4 billion (2021: £3.3 billion), of which £2.5 billion (2021: £2.3 billion) represents the investment in the money markets of the cash element of client portfolios that is held as a banking deposit.

## TREASURY ASSETS

As a licensed deposit taker, Rathbones Investment Management Limited holds our surplus liquidity on its balance sheet together with clients' cash. Cash in client portfolios held on a banking basis of £2.5 billion (2021: £2.3 billion) represented 5.3% of total Investment Management funds under management and administration at 31 December 2022, compared to 4.4% at the end of 2021. Cash held in client money accounts was £5.7 million (2021: £13.9 million).

During the year, the share of treasury assets held with the Bank of England reduced to £1.4 billion (2021: £1.5 billion), as investment in certificates of deposits increased, representing a larger proportion of the treasury book.

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

## LOANS TO CLIENTS

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

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

Loans advanced to clients decreased to £158 million at end of 2022 (2021: £167 million) as clients' demand for lending towards the end of the year subsided as interest rates rose and borrowing decreased in favour of drawing down from investment portfolios.

## INTANGIBLE ASSETS

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

At 31 December 2022, the total carrying value of intangible assets arising from acquired growth was £342.7 million (2021: £361.2 million). During the year, client relationship intangible assets of £1.0 million were capitalised (2021: £8.6 million). Client relationship intangible assets of £79.4 million and goodwill of £70.8 million were acquired last year in relation to the Saunderson House acquisition.

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 2022, including the impact of any lost relationships, was £16.9 million (2021: £13.9 million); the increase in the year was largely due to a full year of amortisation for the Saunderson House client relationship intangible.

Goodwill, which arises from business combinations, is not amortised but is subject to a test for impairment at least annually. No goodwill was identified as impaired during the year. Further detail is provided in note 8.

## CAPITAL EXPENDITURE

Capital expenditure of £8.0 million in 2022 (excluding amounts payable to investment managers under earn-out agreements) is down £0.8 million on 2021.

Capital expenditure on the development of our systems fell by £2.2 million to £5.9 million in the year, continuing a prior year trend. The proportion of spend on the development of our systems that is capitalised has reduced in line with the increasing adoption of cloud-based, strategic technology solutions. The costs of cloud-based solutions are largely charged to profit or loss, with a consequent reduction in the level of depreciation cost in future years.

Property expenditure increased by £1.7 million in 2022 as we continued to develop our hybrid working capability and invested in new premises in Edinburgh following the conclusion of the prior lease.

## DEFINED BENEFIT PENSION SCHEMES

We operate two defined benefit pension schemes. With effect from 30 June 2017, we closed both schemes, ceasing all future benefit accrual and breaking the link to salary.

At 31 December 2022 the combined schemes' liabilities, measured on an accounting basis, had decreased to £94.7 million, down 39.1% from £155.6 million at the end of 2021, primarily reflecting the significant increase in discount rates during the year, and a small decrease in the assumed future rate of inflation. The reported position of the schemes as at 31 December 2022 was a surplus of £9.4 million (2021: surplus of £12.3 million).

The funding position of the schemes was volatile towards the end of the third quarter and start of the fourth quarter of the year as gilt yields rose. The trustees reviewed the level of hedging in the schemes to protect against the risk of falls in long term yields. The schemes' investment portfolios now have a much lower asset allocation to growth assets and a higher allocation to assets with liability matching characteristics. The level of gearing in the liability-driven investment ('LDI') portfolio is now much lower, as the LDI holdings now hold a higher degree of cash and liquid assets, as well as reflecting the regulatory guidance issued by central banks towards the end of 2022. This has reduced the schemes' exposure to future margin calls. This lower level of leverage is expected to increase the resilience of LDI holdings in general terms.

Triennial funding valuations form the basis of the annual contributions that we make into the schemes. Funding valuations of the schemes as at 31 December 2019 were completed in 2020. Having reviewed the long-term plan for the schemes, we agreed with the trustees a target to fund the schemes to a self-sufficient basis over the medium term. This targets a level of assets in the scheme sufficient to fund future cash flows from interest and maturities of the scheme assets, reducing the reliance on equity returns to meet the schemes' requirements. This will significantly reduce the volatility of the schemes and the future burden on the group. This schedule will be reviewed at the next triennial valuations, due as at 31 December 2022.

# LIQUIDITY AND CASH FLOW

Fees and commissions are largely collected directly from client portfolios and a significant proportion of expenses are predictable. Larger cash flows are principally generated from banking and treasury operations when investment managers make asset allocation decisions about the amount of cash to be held in client portfolios.

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

Cash and balances at central banks was £1.4 billion at 31 December 2022 (2021: £1.5 billion).

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

The increase in net cash inflows from operating activities in the year largely reflects a £182.0 million increase in banking client deposits (2021: £227.4 million decrease), as a result of asset allocation decisions to reduce the proportion of funds under management and administration held as cash in clients' portfolios, in favour of holding liquid assets such as UK Treasury Bills.

### TABLE 21. EXTRACTS FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS

| | **2022 £m** | 2021 £m |
|---|---|---|
| Cash and cash equivalents at the end of the year | **1,572.7** | 1,653.6 |
| Net cash inflows from operating activities | **292.9** | (169.0) |
| Net change in cash and cash equivalents | **(80.9)** | (403.1) |

Cash flows from investing activities also included a net outflow of £278.1 million from the purchase of certificates of deposit (2021: net outflow of £110.6 million), as we reduced the proportion of treasury assets held with the Bank of England.

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

– outflows relating to the payment of dividends of £48.6 million (2021: £44.0 million);
– outflows of £10.9 million relating to the payment of deferred consideration for the acquisition of Saunderson House (2021: £nil);
– outflows relating to payments to acquire intangible assets of £8.8 million (2021: £10.7 million); and
– outflows of £4.3 million relating to capital expenditure on tangible property, plant and equipment (2021: £2.0 million).

# RISK MANAGEMENT AND CONTROL

Our approach to risk management is fundamental to supporting the delivery of our strategic objectives. Our risk governance and risk processes are designed to enable the firm to manage risk effectively in accordance with our risk appetite and to support the long-term future of the firm.

## MANAGING RISK

The board has overall responsibility for risk management across the group, regularly assessing the most significant risks and emerging threats to the group's strategy. The board delegates oversight of risk management activities to the group risk and audit committees.

Our risk governance and risk management framework supports the chief executive and executive committee members with their day-to-day responsibility for managing risk.

## RISK CULTURE

The risk culture embedded across the group enhances the effectiveness of risk management and decision-making. The board promotes a strong risk culture, reinforced by our executive and senior management team, which encourages appropriate behaviours and collaboration on managing risk across the group.

Risk management is an integral part of everyone's day-to-day responsibilities and activities; it is linked to performance and development, as well as to the group's remuneration and reward schemes. We aim to create an open and transparent working environment, encouraging employees to engage positively in risk management in support of the achievement of our strategic objectives.

## RISK GOVERNANCE

### BOARD

Sets strategy and risk appetite across the group, and is ultimately accountable for risk management.

### AUDIT COMMITTEE

Monitors and reviews the effectiveness of the internal audit function in line with the group's risk profile on behalf of the board, also oversees appointment of external auditor.

### GROUP RISK COMMITTEE

Oversees effectiveness of the risk management framework and activity across the group. Advises the board on risk appetite, risk assessment, risk profile and risk culture.

### EXECUTIVE COMMITTEE
### EXECUTIVE RISK COMMITTEE
### BANKING COMMITTEE

First line committees with responsibility for management of risk and internal control across the group.

## RISK APPETITE

The board approves the firm's risk appetite statement and framework at least annually to ensure it remains consistent with our strategic objectives and prudential responsibilities.

Specific risk appetite statements are set and measures established for each principal risk. The risk appetite framework supports strategic decision-making, as well as providing a mechanism to monitor our risk exposures.

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

Given the current economic outlook and the evolving regulatory landscape within the sector, the board remains committed to having a relatively low overall appetite for risk in line with our strategy. The board recognises our performance is susceptible to fluctuations in investment markets and has the potential to bear losses from financial and non-financial risks from time to time, either as reductions in income or increases in operating costs.

| RISK CATEGORIES | RISK APPETITE STATEMENT | EXAMPLE OF MEASURES |
|---|---|---|
| **BUSINESS AND STRATEGIC RISK** | Business and strategic risks will be identified and actively managed to protect the ability to deliver sustainable growth.<br><br>Change initiatives will be orientated towards longer-term client, stakeholder and societal expectations. | – Underlying dividend cover<br>– Strategic change delivery<br>– Net zero and diversity targets |
| **FINANCIAL RISK** | Financial risks will be actively managed to preserve the group's overall resilience.<br><br>Credit and market risk exposures will be managed to board approved instruments and limits in order to protect company assets and maintain prudent levels of liquidity and regulatory own funds.<br><br>The group will also continually monitor and respond to risks arising from its pension scheme obligations. | – Prudential ratios (e.g. CET Tier 1, Total Capital)<br>– Counterparty credit exposures<br>– Liquidity coverage ratio |
| **NON-FINANCIAL RISK (CONDUCT AND OPERATIONAL)** | Conduct and regulatory risks associated with our business are recognised, however we have no appetite for intentionally inappropriate behaviour or action by any entity within the group or employees which could have a material detrimental impact on clients, key stakeholders and our reputation.<br><br>Operational risks and losses can arise from inadequate or failed internal processes, people or systems, or from external events. We have an extremely low appetite for losses and no appetite for systemic or materially high risk events which could affect the operational resilience of important business services. | – Operational losses and near misses<br>– Regulatory and conduct breaches |

## THREE LINES OF DEFENCE

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

### FIRST LINE

**Senior management Business operations and control functions**

Responsible for managing risk in line with risk appetite by developing and maintaining an effective framework of internal control.

### SECOND LINE

**Risk, compliance and anti-money laundering functions**

Responsible for the independent oversight and challenge of first line risk management activity.

### THIRD LINE

**Internal audit**

Responsible for providing independent assurance to senior management on the effectiveness of governance, risk management and internal control.

## RISK MANAGEMENT PROCESS

Our risk management process is a defined approach to identify, assess and respond to risks that could affect delivery of strategic objectives and annual business plans. The board, executive and senior management are actively involved in this process.

Risks are identified within a three-tier hierarchy, with the highest level containing business and strategic, financial, conduct and operational risks. Risks are assessed on an inherent and residual basis across a three-year period according to several impact criteria, which include consideration of the internal control environment and/or insurance mitigation.

We maintain a watch list to identify and evaluate current issues and emerging risks as a result of business development or changes in the regulatory landscape, as well as threats and issues in the wider external environment. This helps inform the view of the firm's current and longer-term risk profile, and influences managements decisions and actions.

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

The group's risk profile, risk register, watch list and stress tests are regularly reviewed and challenged by the executive, senior management, group risk committee and the board.

## RISK MANAGEMENT PROCESS

### IDENTIFY

- Risks are identified in the context of the group's strategic objectives and annual business plans
- Risks are identified on a top-down and bottom-up basis from group executive and business unit risk owners
- A three-tier risk hierarchy is used
- The group risk register contains four Level 1, 20 Level 2 and 52 Level 3 risks
- A watch list is maintained to identify and assess emerging or future risks and their impact on our risk profile

### ASSESS

- Regular assessment of risks by the board, executive and business risk owners
- Risks are assessed on both an inherent and residual basis considering both their impact and likelihood
- Impacts are considered through multiple lenses including client, financial, regulatory and reputational
- Likelihood is considered across a three-year period
- High rated principal risks are those which have potential to impact delivery of strategic objectives
- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) assess and stress test principal risks across the group

### RESPOND

- Risk management response is driven by the assessment of risk and risk appetite
- Risks will be escalated to senior and business management in line with their assessment for treatment or acceptance
- Control environment established to mitigate risks to an appropriate level
- ICAAP and ILAAP used to calculate regulatory capital required in the event that principal risks should crystallise

### MONITOR AND REPORT

- Risks are monitored and reported to governance committees across the group
- Risk appetite, which is set by the board annually, is monitored by the business and risk team with measures in place to drive escalation as required
- Testing and assurance activity undertaken across our three lines of defence assesses the adequacy and effectiveness of our control environment
- Risk events and control issues are reported through the governance framework across the group. This informs the ongoing assessment and identification of risks and management responses

### RISK MANAGEMENT FRAMEWORK (RMF) OVERVIEW

A RMF is 'a set of components that supports and sustains risk management by providing the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the firm'.

# PRINCIPAL RISKS

## PROFILE AND MITIGATION OF PRINCIPAL RISKS

Overall we believe the group's underlying risk profile is stable, however during the last year it has fluctuated as a result of market volatility and the changing economic and political landscape. We continually assess our risk profile against both internal and external risk drivers and are investing further in our people, processes and technology to improve risk management. We remain focused on client service, the resilience of our business and wellbeing of our colleagues and we believe our approach continues to be effective.

Based upon our risk assessment processes, the board believes that the principal risks and uncertainties facing the group which could impact the delivery of our strategic objectives have been identified below. These risks continue to reflect our strategic initiatives and transformation programme, continual enhancements to the group's business model in response to environmental, societal and regulatory expectations, the evolving cyber threat landscape, operational resilience in relation to our supply chain, the importance of our people and the economic and political environment. The board remains vigilant to potential risks that could arise from longer-term trends in society, the economy and markets, and to regulatory risks that, in turn, may arise from the continuing development of law, regulation and standards in our sector.

Information about our principal risks is set out below. The risks are mapped out by their likelihood and impact on a residual risk basis, having considered the effectiveness of controls in place to mitigate the risk. This assessment considers a range of outcomes that could be experienced, including the crystallisation of other risks. For some, the impact of events can also be influenced by external factors, such as market conditions.

We use ratings of high, medium, low and very low in our risk assessment. High-risk items are those which have the potential to impact the delivery of strategic objectives, with medium, low and very low-rated risks having proportionately less impact on the group. Likelihood is similarly based on a qualitative assessment.

| RISK AND OWNER | CONTROL ENVIRONMENT | RISK TREND IN 2022 |
|---|---|---|
| **CREDIT**<br>The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement<br>Risk owner: Chief Financial Officer<br>Risk profile: Low | – Banking committee and senior management oversight<br>– Counterparty limits and credit reviews<br>– Treasury policy and procedures<br>– Client lending policy and procedures<br>– Active monitoring of exposures<br>– Annual ICAAP | Increasing: Challenging market conditions and economic decisions during the year resulted in increases to credit spreads across the market. This was closely monitored by the banking committee to ensure the impact did not exceed the group's risk appetite. |
| **PENSION**<br>The risk that the cost of funding our defined benefit pension schemes increases, or their valuation affects dividends, reserves and regulatory own funds<br>Risk owner: Chief Financial Officer<br>Risk profile: Medium | – Board, senior management and trustee oversight<br>– Monthly valuation estimates<br>– Triennial independent actuarial valuations<br>– Investment policy<br>– Senior management review and defined management actions<br>– Annual ICAAP | Stable: The group worked with the pension scheme trustees to ensure the scheme was appropriately hedged during the volatility seen in Q3 2022 following the UK mini budget. |

**Risk trend**

- Increasing
- Stable
- Decreasing

**Risk profile**

- High
- Medium
- Low

| RISK AND OWNER | CONTROL ENVIRONMENT | RISK TREND IN 2022 |
|---|---|---|
| **SUSTAINABILITY**<br>The risk that the business model does not respond in an optimal manner to changing market conditions, including environmental and social factors, such that sustainable growth, market share or profitability are adversely affected<br><br>Risk owner: Group Chief Executive Officer<br><br>Risk profile: Medium | – Board, executive and responsible business committee oversight<br>– A documented strategy, including responsible investment policy<br>– Monitoring of strategic risks<br>– Annual business targets, subject to regular review and challenge<br>– Regular reviews of pricing structure<br>– Continued investment in the investment process, service standards and marketing<br>– Regular competitor benchmarking and analysis<br>– Commitment to diversity and inclusion themes<br>– Trade body participation | Stable<br>2022 has presented challenging market conditions given the external environment, including a volatile economic and political landscape. We do however have a strong balance sheet and recognised market position.<br><br>Climate risk has been integrated into our risk management framework to support the transition to net zero. Our stakeholders will become more demanding in response to evolving expectations of firms to manage climate and other ESG risks, which remain a key priority of our responsible business agenda. |
| **CHANGE**<br>The risk that the change portfolio does not support delivery of the group's strategy<br><br>Risk owner: Chief Operating Officer<br><br>Risk profile: High | – Executive and board oversight of material change programmes<br>– Transformation office programme board oversight and delivery-focused operating model<br>– Differentiated governance approach to strategic change programmes and business projects<br>– Dedicated change delivery function and use of internal and, where required, external subject matter experts<br>– Two-stage assessment, challenge and approval of project plans<br>– Planning and budgeting, monitoring of variances and actions to address<br>– Documented project and change procedures | Increasing<br>This risk has increased in 2022 as our digital transformation programmes moved through critical delivery milestones. Executive and senior management oversight has remained agile and focused on targeted delivery outcomes, and the impact of change on our risk profile. |

**Risk trend**

- Increasing
- Stable
- Decreasing

**Risk profile**

- High
- Medium
- Low

| RISK AND OWNER | CONTROL ENVIRONMENT | RISK TREND IN 2022 |
|---|---|---|
| **REGULATORY COMPLIANCE AND LEGAL**<br>The risk of failure by the group or a subsidiary to fulfil its regulatory or legal requirements and comply with the introduction of new or updated regulations and laws<br>**Risk owner:** Group Chief Executive Officer and Chief Risk Officer<br>**Risk profile:** Medium | – Board and executive oversight<br>– Management oversight and active involvement with industry bodies<br>– Compliance monitoring programme to examine the control of key regulatory risks<br>– Separate anti-money laundering function with specific responsibility<br>– Oversight of industry and regulatory developments<br>– Documented policies and procedures<br>– Employee training and development | Stable<br>While this risk has remained stable in 2022, the landscape and expectations on firms and our sector continue to evolve. We have continued to invest in and develop our first and second line oversight teams, including the deployment of software to support regulatory compliance. The introduction of Consumer Duty in 2023 will be an area of significant regulatory change which we are addressing across the group. |
| **SUITABILITY**<br>The risk of an unsuitable client outcome either through service, investment mandate, investment decisions taken, investment recommendations made or portfolio or fund construction<br>**Risk owner:** ManagingDirector Rathbones Investment Management<br>**Risk profile:** Low | – Board, executive and general managers committee oversight<br>– Investment governance and structured committee oversight<br>– Management oversight and segregated quality assurance and performance teams<br>– Performance measurement information and attribution analysis<br>– 'Know your client' (KYC) suitability processes<br>– Weekly investment management meetings<br>– Training and competence framework<br>– Investment manager reviews through supervisor sampling<br>– Compliance monitoring | Decreasing<br>We have continued to improve processes and oversight of investment and suitability risk in 2022, focusing on training, management information and new ways of working. The successful launch of our 'Reliance on Adviser' proposition in particular has supported the improvement of this risk. Our ongoing investment in technology will also further improve suitability processes and controls in 2023. |

**Risk trend**

- Increasing
- Stable
- Decreasing

**Risk profile**

- High
- Medium
- Low

| RISK AND OWNER | CONTROL ENVIRONMENT | RISK TREND IN 2022 |
| --- | --- | --- |
| **INFORMATION SECURITY AND CYBER**<br>The risk of inappropriate access to, manipulation, or disclosure of, client or company-sensitive information<br>Risk owner: Chief Operating Officer<br>Risk profile: Medium | – Board and executive oversight<br>– Data governance committee and information security steering group oversight<br>– Information security policy, data protection policy and associated procedures<br>– System access controls and encryption<br>– Penetration testing and multi-layer network security<br>– Training and employee awareness programmes<br>– Physical security | Stable<br>The threat landscape in 2022 has been influenced by the volatile external environment. However, we continue to invest in our control environment and resources to improve our security posture and ensure our infrastructure and employees are well positioned against an ever-changing threat landscape. |
| **PEOPLE**<br>The risk of loss of key employees, lack of skilled resources or inappropriate behaviour or actions. This could lead to lack of capacity or capability threatening the delivery of business objectives, or to behaviour leading to complaints, litigation or regulatory action<br>Risk owner: Chief People Officer<br>Risk profile: Medium | – Board and executive oversight<br>– Succession and contingency planning<br>– Transparent, consistent and competitive remuneration schemes<br>– Contractual clauses with restrictive covenants<br>– Continual investment in employee training and development<br>– Employee engagement survey<br>– Appropriate balanced performance measurement system<br>– Culture monitoring and reporting | Stable<br>We have continued to operate effectively in spite of a difficult labour market in 2022. Continued high inflation and cost of living pressures will remain a risk driver into next year. Management action, and our agile approach to support our colleagues, has been positively received, however we continue to engage frequently through our employee survey tool. Employee engagement continues to be positive. |
| **THIRD-PARTY SUPPLIER**<br>The risk of one or more third-party suppliers failing to provide or perform authorised and/or outsourced services to standards expected by the group, impacting the ability to deliver core services. This includes intra-group outsourcing activity.<br>Risk owner: Chief Operating Officer and Chief Executive Officer, Rathbone Unit Trust Management<br>Risk profile: Medium | – Board and executive oversight<br>– Third-party supplier and outsourcing framework<br>– Senior dedicated relationship managers<br>– Supplier contracts and defined service level agreements/KPIs<br>– Supplier due diligence and approval process<br>– Close liaison, contractual reviews and regular service review meetings<br>– Documented policy and procedures | Stable<br>Our framework for third-party supplier and outsourcing risk management has continued to be embedded and developed in 2022. We continue to focus on technology enhancements to further improve our controls in this area, which also supports operational resilience. The change agenda will continue to drive this work as we on-board new strategic partners. |

**Risk trend**

- Increasing
- Stable
- Decreasing

**Risk profile**

- High
- Medium
- Low

## EMERGING RISKS AND THREATS

Emerging risks, including legislative and regulatory change, which have the potential to impact the group and delivery of our strategic objectives, are monitored through our watch list. During the year, the executive committee continued to recognise and respond to a number of emerging risks and threats to the financial services sector as a whole and to our business. In addition, throughout 2022 we have continued to develop our approach to monitoring strategic risks and horizon threats.

Our view for 2023 is that we can reasonably expect current market conditions and uncertainties to remain, given the wide range of global economic and political scenarios which could emerge.

Key emerging risks and threats are:

### NEAR-TERM

- Global and UK specific political tensions
- UK and global economic challenges
- Cyber threats and supply chain resilience

### MEDIUM-TERM

- Changing regulatory expectations
- Climate change transition risk
- Sector consolidation

### LONGER-TERM

- Generational wealth change
- Social care financing
- New entrants into the sector

## ASSESSMENT OF THE COMPANY'S PROSPECTS

The board reviews its strategic plan annually. This, alongside the ICAAP and ILAAP, forms the basis for capital planning which is discussed periodically with the Prudential Regulation Authority (PRA).

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

The board's assessment considers all the principal risks identified by the group and assesses the sufficiency of our response to all Pillar 1 risks (defined as credit, market and operational risks, including conduct) to the required regulatory standards. In addition, the crystallisation of the following events was considered for enhanced stress testing: a significant fall in the value of FUMA, a loss of business/competitive threat from a reputational event, business expansion and a combined FUMA fall and reputational event. The economic and commercial impacts of the global pandemic on the prospects of the company were also factored into the assessment.

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

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

## VIABILITY STATEMENT

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

The board regularly reviews business performance and at least annually its current strategic plan, alongside a strategic risk assessment. The board also considers five-year projections as part of its annual regulatory reporting cycle, including strategic and investment plans. However, the directors have determined and continue to believe that a three-year period to 31 December 2025 constitutes an appropriate and prudent period over which to provide its viability statement given the uncertainties associated with economic and political factors and their potential impact on investment markets over a longer period. This three-year view is also more aligned to the firm's detailed stress testing and capital planning activity. There is no reason to believe the five-year view would be different but, as always, there is more uncertainty over a longer time horizon particularly in relation to external factors.

Stress testing and scenario analysis shows that the group would remain profitable in excess of our risk appetite tolerances for capital and liquidity, and able to withstand the impact of such scenarios. An example of a mitigating action in such scenarios would be a reduction in costs, specifically around change initiatives, along with a reduction in dividend.

## SCENARIOS MODELLED INCLUDE:

- Market-wide stress (capital & liquidity): a 30% fall in FUMA for a one-year period, with recovery over the following two years and FX illiquidity
- Idiosyncratic stress (capital & liquidity): a reputation-affecting cyber event, social media or ESG-related event causing outflow of 20% of FUMA together with associated compensation and rectification costs
- Combined stress (capital & liquidity): aggregation of the above stresses, together with additional FUMA outflow to fund personal lifestyle changes

Based on this assessment, the directors confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2025.

## GOING CONCERN

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

The group companies are regulated by the Prudential Regulation Authority (PRA) and/or the Financial Conduct Authority (FCA) and perform annual capital adequacy and liquidity assessments, which include the modelling of certain extreme stress scenarios. The company publishes Pillar 3 disclosures annually on its website, which provide detail about its regulatory capital resources and requirements. In July 2015, Rathbones Investment Management issued £20 million of 10-year subordinated loan notes to finance future growth which were repaid in August 2021. In October 2021, Rathbones Group Plc issued £40 million of 10-year subordinated loan notes to finance future growth. The group has no other external borrowings.

The directors believe that the company is well placed to manage its business risks successfully despite the continuing uncertain economic and political outlook. As the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 31 DECEMBER 2022**

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Interest and similar income | | **46,335** | 7,710 |
| Interest expense and similar charges | | **(28,032)** | (3,834) |
| **Net interest income** | | **18,303** | 3,876 |
| Fee and commission income | | **462,689** | 457,696 |
| Fee and commission expense | | **(27,477)** | (29,062) |
| **Net fee and commission income** | | **435,212** | 428,634 |
| Other operating income | | **2,360** | 3,417 |
| Operating income | | **455,875** | 435,927 |
| Charges in relation to client relationships and goodwill | | **(19,544)** | (15,595) |
| Acquisition-related costs | 5 | **(13,462)** | (10,089) |
| Other operating expenses | | **(358,815)** | (315,208) |
| **Operating expenses** | | **(391,821)** | (340,892) |
| **Profit before tax** | | **64,054** | 95,035 |
| Taxation | 6 | **(15,070)** | (19,806) |
| **Profit after tax** | | **48,984** | 75,229 |
| **Profit for the year attributable to equity holders of the company** | | **48,984** | 75,229 |
| **Other comprehensive income:** | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Net remeasurement of defined benefit asset/liability | 10 | **(7,083)** | 17,091 |
| Deferred tax relating to net remeasurement of defined benefit asset/liability | | **3,361** | (3,247) |
| **Other comprehensive income net of tax** | | **(3,722)** | 13,844 |
| **Total comprehensive income for the year net of tax attributable to equity holders of the company** | | **45,262** | 89,073 |
| Dividends paid and proposed for the year per ordinary share | 7 | **84.0p** | 81.0p |
| Dividends paid and proposed for the year | | **49,317** | 49,501 |
| **Earnings per share for the year attributable to equity holders of the company:** | | | |
| – basic | 12 | **83.6p** | 133.5p |
| – diluted | | **81.6p** | 129.3p |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2022**

| | Note | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Own shares £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2021 | | 2,874 | 215,092 | 71,756 | (46,744) | 270,849 | 513,827 |
| Profit for the year | | | | | | 75,229 | 75,229 |
| Net remeasurement of defined benefit liability | 10 | | | | | 17,091 | 17,091 |
| Deferred tax relating to components of other comprehensive income | | | | | | (3,247) | (3,247) |
| Other comprehensive income net of tax | | – | – | – | – | 13,844 | 13,844 |
| Dividends paid | 7 | | | | | (43,960) | (43,960) |
| Issue of share capital | | 226 | 75,934 | 5,209 | | | 81,369 |
| Share-based payments: | | | | | | | |
| – cost of share-based payment arrangements[1] | | | | | | 18,969 | 18,969 |
| – cost of vested employee remuneration and share plans[1] | | | | | | (22,216) | (22,216) |
| – cost of own shares vesting | | | | | 25,248 | (25,248) | – |
| – cost of own shares acquired | | | | | (15,130) | | (15,130) |
| – tax on share-based payments | | | | | | 1,350 | 1,350 |
| At 31 December 2021 | | 3,100 | 291,026 | 76,965 | (36,626) | 288,817 | 623,282 |
| Profit for the year | | | | | | **48,984** | **48,984** |
| Net remeasurement of defined benefit asset | 10 | | | | | **(7,083)** | **(7,083)** |
| Deferred tax relating to components of other comprehensive income | | | | | | **3,361** | **3,361** |
| Other comprehensive income net of tax | | **–** | **–** | **–** | **–** | **(3,722)** | **(3,722)** |
| Dividends paid | 7 | | | | | **(48,607)** | **(48,607)** |
| Issue of share capital | | **70** | **18,944** | **–** | | | **19,014** |
| Share-based payments: | | | | | | | |
| – cost of share-based payment arrangements[1] | | | | | | **25,886** | **25,886** |
| – cost of vested employee remuneration and share plans[1] | | | | | | **(12,776)** | **(12,776)** |
| – cost of own shares vesting | | | | | **2,678** | **(2,678)** | **–** |
| – cost of own shares acquired | | | | | **(18,567)** | | **(18,567)** |
| – tax on share-based payments | | | | | | **1,340** | **1,340** |
| At 31 December 2022 | | **3,170** | **309,970** | **76,965** | **(52,515)** | **297,244** | **634,834** |

# CONSOLIDATED BALANCE SHEET

**AS AT 31 DECEMBER 2022**

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | | **1,412,915** | 1,463,294 |
| Settlement balances | | **65,818** | 69,750 |
| Loans and advances to banks | | **194,723** | 203,589 |
| Loans and advances to customers | | **169,766** | 179,840 |
| Investment securities: | | | |
| – fair value through profit or loss | | **11,214** | 29,934 |
| – amortised cost | | **1,045,234** | 761,654 |
| Prepayments, accrued income and other assets | | **126,687** | 115,992 |
| Property, plant and equipment | | **12,687** | 13,059 |
| Right-of-use assets | | **39,087** | 43,895 |
| Current tax asset (UK) | | **3,475** | 2,272 |
| Intangible assets | 8 | **356,193** | 376,187 |
| Net defined benefit asset | 10 | **9,401** | 12,287 |
| **Total assets** | | **3,447,200** | 3,271,753 |
| **Liabilities** | | | |
| Deposits by banks | | **1,035** | 2,212 |
| Settlement balances | | **69,872** | 60,075 |
| Due to customers | | **2,516,116** | 2,333,011 |
| Accruals and other liabilities | | **114,288** | 129,174 |
| Provisions | 9 | **12,907** | 15,324 |
| Lease liabilities | | **50,484** | 54,971 |
| Current tax liabilities (overseas) | | **247** | – |
| Net deferred tax liability | | **7,526** | 13,811 |
| Subordinated loan notes | | **39,891** | 39,893 |
| **Total liabilities** | | **2,812,366** | 2,648,471 |
| **Equity** | | | |
| Share capital | | **3,170** | 3,100 |
| Share premium | | **309,970** | 291,026 |
| Merger reserve | | **76,965** | 76,965 |
| Own shares | | **(52,515)** | (36,626) |
| Retained earnings | | **297,244** | 288,817 |
| **Total equity** | | **634,834** | 623,282 |
| **Total liabilities and equity** | | **3,447,200** | 3,271,753 |

Company registered number: 01000403

# CONSOLIDATED STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED 31 DECEMBER 2022**

| | Note | 2022 £'000 | 2021 £'000 (restated - note 14) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **64,054** | 95,035 |
| Change in fair value through profit or loss | | **304** | (670) |
| Net interest income | | **(18,303)** | (3,876) |
| Recoveries on financial instruments | | **(96)** | (712) |
| Net charge for provisions | 9 | **1,971** | 3,118 |
| Depreciation, amortisation and impairment | | **34,942** | 31,279 |
| Foreign exchange movements | | **(7,077)** | (519) |
| Defined benefit pension scheme (credits)/charges | 10 | **(258)** | 105 |
| Defined benefit pension contributions paid | 10 | **(3,939)** | (5,086) |
| Share-based payment charges | | **25,886** | 20,132 |
| Interest paid | | **(20,861)** | (3,208) |
| Interest received | | **33,940** | 9,439 |
| | | **110,563** | 145,037 |
| Changes in operating assets and liabilities: | | | |
| – net decrease/(increase) in loans and advances to banks and customers | | **8,382** | (41,409) |
| – net decrease in settlement balance debtors | | **3,931** | 20,624 |
| – net decrease/(increase) in prepayments, accrued income and other assets | | **1,871** | (9,113) |
| – net increase/(decrease) in amounts due to customers and deposits by banks | | **181,928** | (227,435) |
| – net increase/(decrease) in settlement balance creditors | | **9,797** | (35,336) |
| – net (decrease)/increase in accruals, provisions and other liabilities | | **(5,925)** | 5,827 |
| **Cash generated from/(used in) operations** | | **310,547** | **(141,805)** |
| Tax paid | | (17,613) | (27,207) |
| **Net cash inflow/(outflow) from operating activities** | | **292,934** | **(169,012)** |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | | **–** | (79,736) |
| Purchase of property, plant, equipment and intangible assets | | **(13,133)** | (12,702) |
| Payment of deferred consideration | | **(10,873)** | – |
| Purchase of investment securities | | **(1,262,476)** | (932,386) |
| Proceeds from sale and redemption of investment securities | | **984,394** | 821,790 |
| **Net cash used in investing activities** | | **(302,088)** | **(203,034)** |
| **Cash flows from financing activities** | | | |
| Issue of ordinary shares | 14 | **9,262** | 59,467 |
| Repurchase of ordinary shares | 14 | **(18,567)** | (15,132) |
| Repayment of subordinated loan notes | | **–** | (20,114) |
| Net proceeds from the issue of subordinated loan notes | | **–** | 39,893 |
| Repayment of debt | | **–** | (45,208) |
| Dividends paid | 7 | **(48,607)** | (43,960) |
| Payment of lease liabilities | | **(8,481)** | (5,109) |
| Interest paid | | **(5,320)** | (895) |
| **Net cash used in financing activities** | | **(71,713)** | **(31,058)** |
| **Net decrease in cash and cash equivalents** | | **(80,867)** | **(403,104)** |
| Cash and cash equivalents at the beginning of the year | | 1,653,590 | 2,056,694 |
| **Cash and cash equivalents at the end of the year** | 14 | **1,572,723** | **1,653,590** |

# NOTES TO THE PRELIMINARY ANNOUNCEMENT

## 1 / PRINCIPAL ACCOUNTING POLICIES

In preparing the financial information included in this statement the group has applied accounting policies which are in accordance with UK-adopted International Accounting Standards at 31 December 2022. The accounting policies have been applied consistently to all periods presented in this statement, except as detailed below.

## 2 / CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The following key accounting policies involve critical judgements made in applying the accounting policy and involve material estimation uncertainty.

### 2.1 CLIENT RELATIONSHIP INTANGIBLES (NOTE 8)

#### Critical judgements

##### Client relationship intangibles purchased through corporate transactions

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

##### Payments to newly recruited investment managers

The group assesses whether payments made to newly recruited investment managers under contractual agreements represent payments for the acquisition of client relationship intangibles or remuneration for ongoing services provided to the group. If these payments are incremental costs of acquiring investment management contracts and are deemed to be recoverable (i.e. through future revenues earned from the funds that transfer), they are capitalised as client relationship intangibles (note 8). Otherwise, they are judged to be in relation to the provision of ongoing services and are expensed in the period in which they are incurred. Upfront payments made to investment managers upon joining are expensed as they are not judged to be incremental costs for acquiring the client relationships.

#### Estimation uncertainty

##### Amortisation of client relationship intangibles

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

Amortisation of £19.5 million (2021: £15.6 million was charged during the year). At 31 December 2022, the carrying value of client relationship intangibles was £175.0 million (2021: £193.6 million).

A reduction of three years in the amortisation period of the group's client relationship intangible assets would increase the annual amortisation charge by £7.7 million.

## 2 / CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

### 2.2 RETIREMENT BENEFIT OBLIGATIONS (NOTE 10)

#### Estimation uncertainty

The principal assumptions underlying the reported surplus of £9,401,000 (2021: £12,287,000 surplus) are set out in note 10.

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

The sensitivities of the retirement benefit obligations to changes in all of the underlying estimates are set out in note 10. Of these, the most sensitive assumption is the discount rate used to measure the defined benefit obligation. Increasing the discount rate by 0.5% would decrease the schemes' liabilities by £7,095,000 (2021: £14,966,000). Increasing the future rate of inflation by 0.5% would increase the schemes' liabilities by £4,990,000 (2021: £12,639,000). A lower or higher movement in these assumptions would result in multiples of these figures. A 0.5% decrease would have the opposite effect of a similar magnitude.

### 2.3 BUSINESS COMBINATIONS (NOTE 4)

#### Estimation uncertainty

During the prior year, the group acquired the entire share capital of Saunderson House Limited. The group accounted for the transaction as a business combination, as set out in note 4.

The purchase price payable in respect of the acquisition was split into a number of different components. The equity-settled deferred payments that are contingent on the recipients remaining employees of the group for a specific period are accounted for as remuneration for ongoing services in employment. The group's estimate of the amounts ultimately payable will be expensed over the deferral period.

##### Fair value of consideration transferred

The Saunderson House management incentive scheme is subject to the achievement of certain operational and performance targets at 31 December 2024. A profit or loss charge has been recognised in equity for the expected consideration payable.

Under the terms of the agreements, the award ranges from a payment of £nil to a maximum possible payment in shares of £7.2 million, and is dependent on the value of qualifying funds under management at the test date, which must achieve a minimum threshold of £5.0 billion, as well as other qualitative factors.

Management's best estimate of this award at the year end was £4.7 million, and is based on expected qualifying funds under management at 31 December 2024 of £5.0 billion. The maximum award of £7.2 million would result in an additional charge to profit or loss in 2022 of £0.7 million. A payment of £nil would result in a reversal of the accumulated profit or loss charge since commencement of the award of £1.7 million in 2022.

## 3 / SEGMENTAL INFORMATION

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

| 31 December 2022 | Investment Management £'000 | Funds £'000 | Indirect expenses £'000 | Total £'000 |
|---|---|---|---|---|
| Net investment management fee income | 274,881 | 62,158 | – | 337,039 |
| Net commission income | 48,871 | – | – | 48,871 |
| Net interest income | 17,779 | 524 | – | 18,303 |
| Fees from advisory services and other income | 51,393 | 269 | – | 51,662 |
| **Operating income** | 392,924 | 62,951 | – | 455,875 |
| | | | | |
| Staff costs – fixed | (109,507) | (6,938) | (42,035) | (158,480) |
| Staff costs – variable | (66,915) | (11,240) | (8,917) | (87,072) |
| **Total staff costs** | (176,422) | (18,178) | (50,952) | (245,552) |
| Other direct expenses | (41,494) | (9,570) | (62,199) | (113,263) |
| Allocation of indirect expenses | (104,363) | (8,788) | 113,151 | – |
| **Underlying operating expenses** | (322,279) | (36,536) | – | (358,815) |
| **Underlying profit before tax** | 70,645 | 26,415 | – | 97,060 |
| Charges in relation to client relationships and goodwill (note 8) | (19,544) | – | – | (19,544) |
| Acquisition-related costs (note 5) | (10,027) | – | (3,436) | (13,462) |
| **Segment profit before tax** | 41,074 | 26,415 | (3,436) | 64,054 |
| **Profit before tax attributable to equity holders of the company** | | | | 64,054 |
| Taxation (note 6) | | | | (15,070) |
| **Profit for the year attributable to equity holders of the company** | | | | 48,984 |

| | Investment Management £'000 | Funds £'000 | Total £'000 |
|---|---|---|---|
| Segment total assets | 3,323,428 | 114,371 | 3,437,799 |
| Unallocated assets | | | 9,401 |
| **Total assets** | | | 3,447,200 |

## 3 / SEGMENTAL INFORMATION CONTINUED

| 31 December 2021 | Investment Management £'000 | Funds £'000 | Indirect expenses £'000 | Total £'000 |
|---|---|---|---|---|
| Net investment management fee income | 288,089 | 61,289 | – | 349,378 |
| Net commission income | 53,596 | – | – | 53,596 |
| Net interest income | 3,874 | 2 | – | 3,876 |
| Fees from advisory services and other income | 27,265 | 1,812 | – | 29,077 |
| **Operating income** | 372,824 | 63,103 | – | 435,927 |
| | | | | |
| Staff costs – fixed | (89,343) | (5,210) | (35,260) | (129,813) |
| Staff costs – variable | (61,872) | (16,833) | (11,426) | (90,131) |
| **Total staff costs** | (151,215) | (22,043) | (46,686) | (219,944) |
| Other direct expenses | (37,488) | (10,084) | (47,692) | (95,264) |
| Allocation of indirect expenses | (85,767) | (8,611) | 94,378 | – |
| **Underlying operating expenses** | (274,470) | (40,738) | – | (315,208) |
| **Underlying profit before tax** | 98,354 | 22,365 | – | 120,719 |
| Charges in relation to client relationships and goodwill (note 8) | (15,595) | – | – | (15,595) |
| Acquisition-related costs (note 5) | (9,635) | – | (454) | (10,089) |
| **Segment profit before tax** | 73,124 | 22,365 | (454) | 95,035 |
| **Profit before tax attributable to equity holders of the company** | | | | 95,035 |
| Taxation (note 6) | | | | (19,806) |
| **Profit for the year attributable to equity holders of the company** | | | | 75,229 |

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

The following table reconciles underlying operating expenses to operating expenses:

| | **2022 £'000** | 2021 £'000 |
|---|---|---|
| Underlying operating expenses | **358,815** | 315,208 |
| Charges in relation to client relationships and goodwill (note 8) | **19,544** | 15,595 |
| Acquisition-related costs (note 5) | **13,462** | 10,089 |
| **Operating expenses** | **391,821** | 340,892 |

## 3 / SEGMENTAL INFORMATION CONTINUED

### GEOGRAPHIC ANALYSIS

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| United Kingdom | **441,977** | 421,386 |
| Jersey | **13,842** | 14,541 |
| Rest of the World | **56** | – |
| **Operating income** | **455,875** | 435,927 |

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| United Kingdom | **404,604** | 429,345 |
| Jersey | **3,363** | 3,796 |
| **Non-current assets** | **407,967** | 433,141 |

### TIMING OF REVENUE RECOGNITION

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

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Investment Management £'000 | Funds £'000 | Investment Management £'000 | Funds £'000 |
| Products and services transferred at a point in time | **41,192** | **–** | 44,190 | – |
| Products and services transferred over time | **351,732** | **62,951** | 327,486 | 64,251 |
| Operating Income | **392,924** | **62,951** | 371,676 | 64,251 |

### MAJOR CLIENTS

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

## 4 / BUSINESS COMBINATIONS

### SPEIRS & JEFFREY

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

#### Other deferred payments

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

The payments are to be made in shares and have been accounted for as equity-settled share-based payments under IFRS 2:

- initial share consideration was payable on completion. However, although the shares were issued on the date of acquisition, they vested during the prior year at the third anniversary of the acquisition date.
- earn-out consideration and related incentivisation awards were subject to the delivery of certain operational and financial performance targets. The earn-out awards for the vendors were payable in two parts in the third and fourth years following the acquisition date. The second earn-out vested during the prior year. The incentivisation awards for staff will vest in tranches by 31 March 2025.

## **4 /** BUSINESS COMBINATIONS CONTINUED

The charge recognised in profit or loss for the year ended 31 December 2022 for the above elements is as follows:

| | **2022 £'000** | 2021 £'000 |
|---|---|---|
| Initial share consideration | **–** | 4,533 |
| Earn-out consideration and incentivisation awards | **3,497** | 1,430 |
| | **3,497** | 5,963 |

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

### SAUNDERSON HOUSE

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

### CONSIDERATION TRANSFERRED

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

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

Total consideration comprised an initial cash payment of £87,981,000, which was paid on 20 October 2021. The net assets acquired from the Saunderson House group included third-party debt of £45,208,000. This debt was repaid by Rathbones Group Plc immediately following completion. The repayment of the debt did not represent consideration paid to acquire the business.

The deferred cash consideration was paid during the year on the first anniversary of the acquisition date to vendors not required to remain in employment with the group. This has been classified within net cash used in investing activities in the consolidated statement of cash flows, as it was a payment in respect of acquiring the shares in Saunderson House.

### OTHER DEFERRED PAYMENTS

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

| | Gross amount £'000 | Grant date | Grant date fair value £'000 | Vesting date |
|---|---|---|---|---|
| Initial share consideration | 5,223 | 20 October 2021 | 5,454 | 20 October 2024 |
| Deferred share consideration | 4,052 | 20 October 2021 | 4,051 | 20 October 2022 |
| Management incentive scheme | 4,700 | 20 December 2021 | 4,100 | 31 December 2024 |

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

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

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

## 5 / ACQUISITION-RELATED COSTS

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Acquisition of Speirs & Jeffrey | **3,497** | 6,418 |
| Acquisition of Saunderson House | **9,965** | 3,671 |
| **Acquisition-related costs** | **13,462** | 10,089 |

### COSTS RELATING TO THE ACQUISITION OF SPEIRS & JEFFREY

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Acquisition costs:** | | |
| – Staff costs | **3,497** | 5,964 |
| – Legal and advisory fees | **–** | 5 |
| **Integration costs** | **–** | 449 |
| | **3,497** | 6,418 |

Non-staff acquisition costs of £nil (2021: £5,000) and integration costs of £nil (2021: £449,000) have not been allocated to a specific operating segment (note 3).

### COSTS RELATING TO THE ACQUISITION OF SAUNDERSON HOUSE

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Acquisition costs:** | | |
| – Staff costs | **6,529** | 1,406 |
| – Legal and advisory fees | **–** | 2,265 |
| **Integration costs** | **3,436** | – |
| | **9,965** | 3,671 |

Integration costs of £3,436,000 (2021: £nil) have not been allocated to a specific operating segment (note 3).

## 6 / INCOME TAX EXPENSE

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Current tax: | | |
| – charge for the year | **16,482** | 23,796 |
| – adjustments in respect of prior years | **275** | 86 |
| Deferred tax: | | |
| – credit for the year | **(1,261)** | (3,793) |
| – adjustments in respect of prior years | **(426)** | (283) |
| | **15,070** | 19,806 |

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

The tax charge on profit for the year is higher (2021: higher) than the standard rate of corporation tax in the UK of 19.0% (2021: 19.0%).

The differences are explained below:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Tax on profit from ordinary activities at the standard rate of 19.0% (2021: 19.0%) | **12,170** | 18,057 |
| Effects of: | | |
| – disallowable expenses | **904** | 984 |
| – share-based payments | **(13)** | 87 |
| – tax on overseas earnings | **(170)** | (56) |
| – adjustments in respect of prior year | **(151)** | (197) |
| – deferred payments to previous owners of acquired companies (note 5) | **1,247** | 935 |
| – change in corporation tax rate on deferred tax | **1,083** | (4) |
| | **15,070** | 19,806 |

£102,000 of current tax on share-based payments was charged to equity during the year (2021: credit of £62,000).

## 7 / DIVIDENDS

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| – final dividend for the year ended 31 December 2021 of 54.0p (2020: 47.0p) per share | **32,054** | 25,938 |
| – interim dividend for the year ended 31 December 2022 of 28.0p (2021: 27.0p) per share | **16,553** | 18,022 |
| Dividends paid in the year of 82.0p (2021: 74.0p) per share | **48,607** | 43,960 |
| Proposed final dividend for the year ended 31 December 2022 of 56.0p (2021: 54.0p) per share | **32,764** | 31,479 |

An interim dividend of 28.0p per share was paid on 4 October 2022 to shareholders on the register at the close of business on 2 September 2022 (2021: 27.0p).

A final dividend declared of 56p per share (2021: 54.0p) is payable on 9 May 2023 to shareholders on the register at the close of business on 21 April 2023. The final dividend is subject to approval by shareholders at the Annual General Meeting on 4 May 2023 and has not been included as a liability in these financial statements.

## 8 / INTANGIBLE ASSETS

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Goodwill | **167,677** | 167,677 |
| Other intangible assets | **188,516** | 208,510 |
| | **356,193** | 376,187 |

### GOODWILL

Goodwill acquired in a business combination is allocated, at acquisition, to the groups of cash-generating units (CGUs) that are expected to benefit from that business combination.

The carrying amount of goodwill has been allocated as follows:

| | Investment Management £'000 | Funds £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2021 | 96,872 | 1,954 | 98,826 |
| Acquired through business combinations (note 4) | 70,805 | – | 70,805 |
| **At 1 January 2022** | **167,677** | **1,954** | **169,631** |
| **At 31 December 2022** | 167,677 | 1,954 | 169,631 |
| Impairment | | | |
| At 1 January 2021 | – | 1,954 | 1,954 |
| **Charge for the year** | **–** | **–** | **–** |
| At 1 January 2022 | **–** | **1,954** | **1,954** |
| **Charge for the year** | **–** | **–** | **–** |
| **At 31 December 2022** | **–** | **1,954** | **1,954** |
| **Carrying amount at 31 December 2022** | **167,677** | **–** | **167,677** |
| Carrying amount at 31 December 2021 | 167,677 | – | 167,677 |
| Carrying amount at 1 January 2021 | 96,872 | – | 96,872 |

Goodwill of £70,805,000 acquired through business combinations in the prior year relates to the acquisition of Saunderson House (see note 4). This was allocated to the Investment Management group of CGUs.

### IMPAIRMENT

The recoverable amounts of the groups of CGUs to which goodwill is allocated are assessed using value-in-use calculations. The group prepares cash flow forecasts derived from the most recent financial budgets approved by the board, which cover the three year period from the end of the current financial year. This is extrapolated for five years based on recent historic annual revenue and cost growth for each group of CGUs (see table below), adjusted for significant historic fluctuations in industry growth rates where relevant, as well as the group's expectation of future growth.

A five-year extrapolation period is chosen as this aligns with the period covered by the group's Internal Capital Adequacy Assessment Process ('ICAAP') modelling. A terminal growth rate is applied to year five cash flows, which takes into account the net growth forecasts over the extrapolation period and the long-term average growth rate for the industry. The group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the group of CGUs.

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

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

## 8 / INTANGIBLE ASSETS CONTINUED

| At 31 December | Investment management 2022 | 2021 |
|---|---|---|
| Discount rate | **14.1%** | 12.0% |
| Average annual revenue growth rate | **4.3%** | 4.9% |
| Terminal growth rate | **1.0%** | 1.0% |

### OTHER INTANGIBLE ASSETS

| | Client relationships £'000 | Software development costs £'000 | Purchased software £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2021 | 216,253 | 9,793 | 46,189 | 272,235 |
| Internally developed in the year | – | 1,847 | – | 1,847 |
| Acquired through business combinations (note 4) | 79,415 | – | 5,662 | 85,077 |
| Purchased in the year | 8,620 | – | 4,988 | 13,608 |
| Disposals | (1,716) | – | (3,699) | (5,415) |
| **At 1 January 2022** | **302,572** | **11,640** | **53,140** | **367,352** |
| Internally developed in the year | **–** | **1,827** | **–** | **1,827** |
| Purchased in the year | **998** | **–** | **1,790** | **2,788** |
| Disposals | **(2,643)** | **–** | **(33)** | **(2,676)** |
| **At 31 December 2022** | **300,927** | **13,467** | **54,897** | **369,291** |
| **Amortisation and impairment** | | | | |
| At 1 January 2021 | 95,124 | 7,234 | 35,606 | 137,964 |
| Acquired through business combinations (note 4) | – | – | 4,237 | 4,237 |
| Amortisation charge | 15,595 | 1,302 | 5,160 | 22,057 |
| Disposals | (1,716) | – | (3,699) | (5,415) |
| **At 1 January 2022** | **109,003** | **8,536** | **41,304** | **158,843** |
| Amortisation charge | **19,544** | **1,488** | **3,559** | **24,591** |
| Disposals | **(2,643)** | **–** | **(16)** | **(2,659)** |
| **At 31 December 2022** | **125,904** | **10,024** | **44,847** | **180,775** |
| Carrying amount at 31 December 2022 | **175,023** | **3,443** | **10,050** | **188,516** |
| Carrying amount at 31 December 2021 | 193,569 | 3,104 | 11,836 | 208,509 |
| Carrying amount at 1 January 2021 | 121,129 | 2,559 | 10,583 | 134,271 |

Client relationships of £79,415,000 acquired through business combinations in the prior year relate to the acquisition of Saunderson House (see note 4).

Purchases of client relationships of £998,000 (2021: £8,620,000) in the year relate to payments made to investment managers and third parties for the introduction of client relationships.

The total amount charged to profit or loss in the year in relation to goodwill and client relationships was £19,544,000 (2021: £15,595,000).

Purchased software with a cost of £35,191,000 (2021: £32,363,000) has been fully amortised but is still in use.

## 9 / PROVISIONS

| | Deferred, variable costs to acquire client relationship intangibles £'000 | Deferred consideration in business combinations £'000 | Legal and compensation £'000 | Property-related £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 January 2021** | 3,785 | 588 | 594 | 3,748 | 8,715 |
| Charged to profit or loss | – | – | 2,278 | 995 | 3,273 |
| Unused amount credited to profit or loss | – | – | (155) | – | (155) |
| Net charge to profit or loss | – | – | 2,123 | 995 | 3,118 |
| Other movements | 7,992 | – | – | – | 7,992 |
| Utilised/paid during the year | (3,239) | (588) | (574) | (100) | (4,501) |
| **At 1 January 2022** | **8,538** | **–** | **2,143** | **4,643** | **15,324** |
| Charged to profit or loss | **–** | **–** | **843** | **1,182** | **2,025** |
| Unused amount credited to profit or loss | **–** | **–** | **(21)** | **–** | **(21)** |
| Net charge to profit or loss | **–** | **–** | **822** | **1,182** | **2,004** |
| Other movements | **997** | **–** | **–** | **–** | **997** |
| Utilised/paid during the year | **(5,156)** | **–** | **(229)** | **(33)** | **(5,418)** |
| **At 31 December 2022** | **4,379** | **–** | **2,736** | **5,792** | **12,907** |
| | | | | | |
| Payable within 1 year | **1,032** | **–** | **2,736** | **330** | **4,098** |
| Payable after 1 year | **3,347** | **–** | **–** | **5,462** | **8,809** |
| | **4,379** | **–** | **2,736** | **5,792** | **12,907** |

### DEFERRED, VARIABLE COSTS TO ACQUIRE CLIENT RELATIONSHIP INTANGIBLES

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been previously capitalised .

### DEFERRED AND CONTINGENT CONSIDERATION IN BUSINESS COMBINATIONS

During the prior year, the group settled an incentivisation award for Speirs & Jeffrey support staff in the value of £588,000.

### LEGAL AND COMPENSATION

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

### PROPERTY-RELATED

Property-related provisions of £5,792,000 relate to dilapidation provisions expected to arise on leasehold premises held by the group (2021: £4,643,000). Dilapidation provisions are calculated using a discounted cash flow model.

During the year, the group utilised £33,000 for the property held in Edinburgh (2021: £100,000). The impact of discounting led to an additional charge of £1,182,000 (2021: additional charge of £995,000) being recognised during the year.

#### Amounts payable after one year

Property-related provisions of £5,462,000 are expected to be settled within 11 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held. Remaining provisions payable after one year are expected to be settled within 2 years of the balance sheet date.

## 10 / LONG-TERM EMPLOYEE BENEFITS

### DEFINED CONTRIBUTION PENSION SCHEME

The group operates a defined contribution group personal pension scheme and contributes to various other personal pension arrangements for certain directors and employees. The total contributions made to these schemes during the year were £15,211,000 (2021: £12,006,000). The group also operates a defined contribution scheme for overseas employees, for which the total contributions were £80,000 (2021: £82,000).

### DEFINED BENEFIT PENSION SCHEMES

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

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

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

The schemes are valued by independent actuaries at least every three years using the projected unit credit method, which looks at the value of benefits accruing over the years following the valuation date based on projected salary to the date of termination of services, discounted to a present value using a rate that reflects the characteristics of the liability. The valuations are updated at each balance sheet date in between full valuations. The latest full actuarial valuations were carried out as at 31 December 2019. Valuations as at 31 December 2022 are currently being undertaken for both schemes.

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

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

| | Laurence Keen Scheme | | Rathbone 1987 Scheme | |
|---|---|---|---|---|
| | **2022 % (unless stated)** | 2021 % (unless stated) | **2022 % (unless stated)** | 2021 % (unless stated) |
| Rate of increase of salaries | **n/a** | n/a | **n/a** | n/a |
| Rate of increase of pensions in payment | **3.60** | 3.70 | **3.20** | 3.30 |
| Rate of increase of deferred pensions | **3.20** | 3.40 | **3.20** | 3.40 |
| Discount rate | **4.70** | 1.90 | **4.70** | 1.90 |
| Inflation* | **3.20** | 3.40 | **3.20** | 3.40 |
| Percentage of members transferring out of the schemes per annum | **2.00** | 2.00 | **2.00** | 2.00 |
| Average age of members at date of transferring out (years) | **52.5** | 52.5 | **52.5** | 52.5 |

* Inflation assumptions are based on the Retail Prices Index

## 10 / LONG-TERM EMPLOYEE BENEFITS CONTINUED

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

1. the discount rate has been increased by 2.8% to reflect an increase in the yields available on AA-rated corporate bonds
2. the assumed rate of future inflation has decreased by 0.2% and reflects expectations of long-term inflation as implied by changes in the Bank of England inflation yield curve
3. the assumed rates of future increases to pensions in payment, where linked to inflation, has decreased by 0.1% for both schemes, allowing for the change to the assumed rate of future inflation

Over the year the mortality assumptions have been updated. The CMI model used to project future improvements in mortality has been updated from the 2020 version to the 2021 version.

2% of members not yet in receipt of their pension are assumed to transfer out of the scheme each year (2021: 2%).

The proportion of members assumed to be married at retirement age is 80% (2021: 80%).

The assumed duration of the liabilities for the Laurence Keen Scheme is 13 years (2021: 15 years) and the assumed duration for the Rathbone 1987 Scheme is 16 years (2021: 20 years).

The normal retirement age for members of the Laurence Keen Scheme is 65 (60 for certain former directors). The normal retirement age for members of the Rathbone 1987 Scheme is 60 for service prior to 1 July 2009 and 65 thereafter, following the introduction of pension benefits based on Career-Average Revalued Earnings (CARE) from that date. The assumed life expectancy for the membership of both schemes is based on the S3PA 'Light' actuarial tables with improvements in line with the CMI 2021 tables with a long-term rate of improvement of 1.5% p.a. The assumed life expectancies on retirement were:

| | | 2022 | | 2021 | |
|---|---|---|---|---|---|
| | | **Males** | **Females** | Males | Females |
| Retiring today: | aged 60 | **28.2** | **29.9** | 28.2 | 29.9 |
| | aged 65 | **23.3** | **24.9** | 23.3 | 24.9 |
| Retiring in 20 years: | aged 60 | **29.9** | **31.6** | 29.9 | 31.6 |
| | aged 65 | **24.9** | **26.6** | 24.8 | 26.6 |

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

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Laurence Keen Scheme £'000** | **Rathbone 1987 Scheme £'000** | **Total £'000** | Laurence Keen Scheme £'000 | Rathbone 1987 Scheme £'000 | Total £'000 |
| Present value of defined benefit obligations | **(7,167)** | **(87,564)** | **(94,731)** | (11,149) | (144,428) | (155,577) |
| Fair value of scheme assets | **8,113** | **96,019** | **104,132** | 12,981 | 154,883 | 167,864 |
| **Net defined benefit asset/(liability)** | **946** | **8,455** | **9,401** | 1,832 | 10,455 | 12,287 |

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

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Laurence Keen Scheme £'000** | **Rathbone 1987 Scheme £'000** | **Total £'000** | Laurence Keen Scheme £'000 | Rathbone 1987 Scheme £'000 | Total £'000 |
| Interest income | **(36)** | **(222)** | **(258)** | (5) | 110 | 105 |
| | **(36)** | **(222)** | **(258)** | (5) | 110 | 105 |

Remeasurements of the net defined benefit asset have been reported in other comprehensive income. The actual return on scheme assets was a fall in value of £4,385,000 (2021: £481,000 rise) for the Laurence Keen Scheme and a fall in value of £58,806,000 (2021: £11,501,000 rise) for the Rathbone 1987 Scheme.

## **10 /** LONG-TERM EMPLOYEE BENEFITS CONTINUED

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

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Laurence Keen Scheme £'000** | **Rathbone 1987 Scheme £'000** | **Total £'000** | Laurence Keen Scheme £'000 | Rathbone 1987 Scheme £'000 | Total £'000 |
| At 1 January | **11,149** | **144,428** | **155,577** | 12,374 | 153,030 | 165,404 |
| Service cost (employer's) | **–** | **–** | **–** | – | – | – |
| Interest cost | **206** | **2,708** | **2,914** | 158 | 1,961 | 2,119 |
| Contributions from members | **–** | **–** | **–** | – | – | – |
| Actuarial experience gains | **99** | **3,561** | **3,660** | 20 | 5,793 | 5,813 |
| Actuarial gains/(losses) arising from: | | | | | | – |
| – demographic assumptions | **4** | **188** | **192** | (159) | (1,200) | (1,359) |
| – financial assumptions | **(3,640)** | **(59,492)** | **(63,132)** | (816) | (10,761) | (11,577) |
| Past service cost | **–** | **–** | **–** | – | – | – |
| Benefits paid | **(651)** | **(3,829)** | **(4,480)** | (428) | (4,395) | (4,823) |
| **At 31 December** | **7,167** | **87,564** | **94,731** | 11,149 | 144,428 | 155,577 |

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

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Laurence Keen Scheme £'000** | **Rathbone 1987 Scheme £'000** | **Total £'000** | Laurence Keen Scheme £'000 | Rathbone 1987 Scheme £'000 | Total £'000 |
| At 1 January | **12,981** | **154,883** | **167,864** | 12,592 | 143,027 | 155,619 |
| Remeasurement of net defined benefit asset/(liability) | | | | | | – |
| – interest income | **242** | **2,930** | **3,172** | 163 | 1,851 | 2,014 |
| – return on scheme assets (excluding amounts included in interest income) | **(4,627)** | **(61,736)** | **(66,363)** | 318 | 9,650 | 9,968 |
| Contributions from the sponsoring companies | **168** | **3,771** | **3,939** | 336 | 4,750 | 5,086 |
| Contributions from scheme members | **–** | **–** | **–** | – | – | – |
| Benefits paid | **(651)** | **(3,829)** | **(4,480)** | (428) | (4,395) | (4,823) |
| **At 31 December** | **8,113** | **96,019** | **104,132** | 12,981 | 154,883 | 167,864 |

The statements of investment principles set by the trustees of both schemes were revised in 2022. They require that the assets of the schemes are invested in a diversified portfolio of assets, split between return-seeking assets (primarily equities) and safer assets (corporate bonds and liability-driven investments).

The balance between the Schemes' assets moves in line with market conditions, and will be periodically reviewed by the Trustees. In addition, the Trustees will review the asset allocation on a regular basis and look to reduce the allocation to equities as and when appropriate.

## **10 /** LONG-TERM EMPLOYEE BENEFITS CONTINUED

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

| Laurence Keen Scheme | **2022 Fair value £'000** | 2021 Fair value £'000 | **2022 Current allocation %** | 2021 Current allocation % |
|---|---|---|---|---|
| Equity instruments: | | | | |
| – United Kingdom | **146** | 348 | | |
| – Eurozone | **187** | 696 | | |
| – North America | **724** | 2,547 | | |
| – Other | **520** | 2,244 | | |
| | **1,577** | 5,835 | **19** | 46 |
| Debt instruments: | | | | |
| – United Kingdom corporate bonds | **4,357** | 4,854 | | |
| | **4,357** | 4,854 | **54** | 37 |
| Liability-driven investments | **2,018** | 1,986 | **25** | 15 |
| Cash | **102** | 181 | **1** | 1 |
| Other | **59** | 125 | **1** | 1 |
| **At 31 December** | **8,113** | 12,981 | **100** | 100 |

| Rathbone 1987 Scheme | **2022 Fair value £'000** | 2021 Fair value £'000 | **2022 Current allocation %** | 2021 Current allocation % |
|---|---|---|---|---|
| Equity instruments: | | | | |
| – United Kingdom | **4,241** | 18,035 | | |
| – Eurozone | **2,511** | 9,107 | | |
| – North America | **13,465** | 27,980 | | |
| – Other | **6,073** | 16,823 | | |
| | **26,290** | 71,945 | **28** | 47 |
| Debt instruments: | | | | |
| – United Kingdom corporate bonds | **37,678** | 54,370 | | |
| | **37,678** | 54,370 | **39** | 35 |
| Liability-driven investments | **30,836** | 26,308 | **32** | 17 |
| Cash | **1,215** | 2,260 | **1** | 1 |
| Other | **–** | – | **–** | – |
| At 31 December | **96,019** | 154,883 | **100** | 100 |

All equity instruments held have quoted prices in active markets. 'Other' scheme assets comprise only commodities (2021: commodities). Buy and maintain credit funds held with Legal and General Investment Management have been classified as UK corporate bonds.

The liability-driven investments held are a selection of pooled funds managed by Legal & General Investment Management. They are comprised of four funds which invest in a range of index-linked and fixed-interest investments, with weightings determined with reference to the profile of the Schemes' liabilities, such that they provide a suitable hedge against interest rate and inflation rate changes. The funds are liquid and are valued at their realisable value as at the relevant date.

## 10 / LONG-TERM EMPLOYEE BENEFITS CONTINUED

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

| | Combined impact on schemes' liabilities | |
|---|---|---|
| | (Decrease)/ increase £'000 | (Decrease)/ increase % |
| 0.5% increase in: | | |
| – discount rate | (7,095) | (7.5)% |
| 0.5% increase in: | | |
| – rate of inflation | 4,990 | 5.3% |
| Reduce allowance for future transfers to nil | 367 | 0.4% |
| 1-year increase to: | | |
| – longevity at 60 | 3,447 | 3.6% |

The total contributions made by the group to the 1987 Scheme during the year were £3,771,000 (2021: £4,750,000). The group has a commitment to pay deficit-reducing contributions of £2,750,000 by 31 August 2023 and each subsequent 31 August up to and including 31 August 2026, unless the funding position is assessed to be over 100% funded on a self-sufficient basis at the end of the prior year.

The total contributions made by the group to the Laurence Keen Scheme during the year were £168,000 (2021: £336,000). The group has a commitment to pay deficit-reducing contributions of £168,000 by 28 February each year from 2023 to 2026 (inclusive).

Per IAS 19, companies are required to limit the value of any defined benefit asset to the lower of the surplus in the plan and the defined benefit asset ceiling, where the asset ceiling is the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The company expects to access any surplus assets remaining in the plan once all members have left after gradual settlement of the liabilities. Therefore, the net asset is deemed to be recoverable and the effect of the asset ceiling is £nil.

## 11 / 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 2022** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| Fair value through profit or loss: | | | | |
| – equity securities | **8,068** | **–** | **3,146** | **11,214** |
| – money market funds | **–** | **–** | **–** | **–** |
| | **8,068** | **–** | **3,146** | **11,214** |

| At 31 December 2021 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Fair value through profit or loss: | | | | |
| – equity securities | 7,376 | – | 2,558 | 9,934 |
| – money market funds | – | 20,000 | – | 20,000 |
| | 7,376 | 20,000 | 2,558 | 29,934 |

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no transfers between levels during the year (2021: none).

The fair value of listed equity securities is their quoted price.

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

– Investment debt securities measured at amortised cost comprise bank and building society certificates of deposit, which have fixed coupons, and treasury bills. The fair value of the debt securities at 31 December 2022 was £1,053,460,000 (2021: £761,763,000) and the carrying value was £1,045,257,000 (2021: £761,682,000). Fair value of debt securities is based on market bid prices, and hence would be categorised as level 1 within the fair value hierarchy.

– Subordinated loan notes comprise Tier 2 loan notes. The fair value of the loan notes at 31 December 2022 was £41,211,000 (2021: £42,824,000) and the carrying value was £39,891,000 (2021: £39,893,000). Fair value of the loan notes is based on discounted future cash flows using current market rates for debts with similar remaining maturity, and hence would be categorised as level 2 in the fair value hierarchy.

### Level 3 financial instruments

#### Fair value through profit or loss

The group holds 1,809 shares in Euroclear Holdings SA, which are classed as level 3 in the fair value hierarchy since readily available observable market data is not available.

The valuation of €1,985 per share at 31 December 2022 has been calculated by reference to the indicative price derived from the most recent transactions of the shares in the market. The valuation at the balance sheet date has been adjusted for movements in exchange rates since the acquisition date. A 10% weakening of the euro against sterling, occurring on 31 December 2022, would have reduced equity and profit after tax by £255,000 (2021: £207,000). A 10% strengthening of the euro against sterling would have had an equal and opposite effect.

## **11 /** FAIR VALUES CONTINUED

Changes in the fair values of financial instruments categorised as level 3 within the fair value hierarchy were as follows:

| | **2022** | 2021 |
|---|---|---|
| **At 1 January** | **2,558** | 2,569 |
| Total unrealised gains/(losses) recognised in profit or loss | **588** | (11) |
| **At 31 December** | **3,146** | 2,558 |

The gains or losses relating to the fair value through profit or loss equity securities is included within 'other operating income' in the consolidated statement of comprehensive income.

There were no other gains or losses arising from changes in the fair value of financial instruments categorised as level 3 within the fair value hierarchy.

## 12 / EARNINGS PER SHARE

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

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Pre-tax £'000** | **Taxation £'000** | **Post-tax £'000** | Pre-tax £'000 | Taxation £'000 | Post-tax £'000 |
| Underlying profit attributable to shareholders | **97,060** | **(20,384)** | **76,676** | 120,719 | (23,732) | 96,987 |
| Charges in relation to client relationships and goodwill (note 8) | **(19,544)** | **3,713** | **(15,831)** | (15,595) | 2,963 | (12,632) |
| Acquisition-related costs (note 5) | **(13,462)** | **1,601** | **(11,861)** | (10,089) | 963 | (9,126) |
| **Profit attributable to shareholders** | **64,054** | **(15,070)** | **48,984** | 95,035 | (19,806) | 75,229 |

Basic earnings per share has been calculated by dividing profit attributable to shareholders by the weighted average number of shares in issue throughout the year, excluding own shares, of 58,618,521 (2021: 56,334,784).

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

| | **2022** | 2021 |
|---|---|---|
| Weighted average number of ordinary shares in issue during the year – basic | **58,618,521** | 56,334,784 |
| Effect of ordinary share options/Save As You Earn | **595,055** | 521,955 |
| Effect of dilutive shares issuable under the Share Incentive Plan | **671** | 237,776 |
| Effect of contingently issuable shares under the Executive Incentive Plan | **563,816** | 811,508 |
| Effect of contingently issuable shares under Saunderson House initial share consideration (note 4) | **272,952** | 272,952 |
| **Diluted ordinary shares** | **60,051,015** | 58,178,975 |

| | **2022** | 2021 |
|---|---|---|
| Earnings per share for the year attributable to equity holders of the company: | | |
| – basic | **83.6p** | 133.5p |
| – diluted | **81.6p** | 129.3p |
| Underlying earnings per share for the year attributable to equity holders of the company: | | |
| – basic | **130.8p** | 172.2p |
| – diluted | **127.7p** | 166.7p |

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

## 13 / RELATED PARTY TRANSACTIONS

### TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

Gains on options exercised by directors during the year totalled £nil (2021: £nil). Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report.

| | **2022 £'000** | 2021 £'000 |
|---|---|---|
| Short-term employee benefits | **10,221** | 12,159 |
| Post-employment benefits | **272** | 290 |
| Other long-term benefits | **359** | 1,305 |
| Share-based payments | **379** | 1,997 |
| | **11,231** | 15,751 |

Dividends totalling £216,000 were paid in the year (2021: £229,000) in respect of ordinary shares held by key management personnel and their close family members.

At 31 December 2022, key management personnel and their close family members had gross outstanding deposits of £1,743,000 (2021: £634,000) and gross outstanding banking loans of £nil (2021: nil). A number of the group's key management personnel and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates. All transactions were made on normal business terms.

### OTHER RELATED PARTY TRANSACTIONS

The group's transactions with the pension funds are described in note 10. At 31 December 2022, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2021: none).

One group subsidiary, Rathbone Unit Trust Management, has authority to manage the investments within a number of unit trusts. Another group company, Rathbones Investment Management International, acted as investment manager for a protected cell company offering unitised private client portfolio services. During 2022, the group managed 32 unit trusts, Sociétés d'Investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2021: 33 unit trusts and OEICs).

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

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

| Year ended 31 December | **2022 £'000** | 2021 £'000 |
|---|---|---|
| Total management fees | **68,226** | 68,444 |

| As at 31 December | **2022 £'000** | 2021 £'000 |
|---|---|---|
| Management fees owed to the group | **5,587** | 6,240 |
| Holdings in unit trusts | **8,068** | 7,376 |
| | **13,655** | 13,616 |

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

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

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

## 14 / CONSOLIDATED STATEMENT OF CASH FLOWS

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Cash and balances at central banks | 1,408,000 | 1,460,001 |
| Loans and advances to banks | 164,723 | 173,589 |
| Fair value through profit or loss investment securities | – | 20,000 |
| **At 31 December** | 1,572,723 | 1,653,590 |

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

Following the Financial Reporting Council's ('FRC') Corporate Reporting Review of the group's 2021 annual report and accounts, a prior year debt repayment by the group has been reclassified from cash flows from operations to cash flows from financing activities.

In the prior year, included within the net assets acquired from the Saunderson House group was third-party debt of £45,208,000, which was repaid to the third-party shortly after acquisition by Rathbones Group Plc. This amount was previously included within 'net (decrease)/increase in accruals, provisions and other liabilities' in the consolidated statement of cash flows. As the group assumed this debt upon acquisition, the nature of the repayment indicates it was a financing outflow. The group has therefore restated comparative information as at 31 December 2021 to report this amount within net cash used in financing activities.

As a consequence, total cash outflows from operations for the group was restated from £187,013,000 to £141,805,000, and total cash inflows from financing activities of £14,150,000 was restated to total cash outflows of £31,058,000. For Rathbones Group Plc (the 'Company'), total cash outflows from operations was restated from £1,994,000 to inflows of £43,214,000, and total cash inflows from financing activities of £35,539,000 was restated to total cash outflows of £9,669,000. This restatement does not impact the group or company's closing cash and cash equivalents position.

The review conducted by the FRC was based solely on the Group's published report and accounts and does not provide any assurance that the report and accounts are correct in all material respects.

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Share capital issued | 70 | 226 |
| Share premium on shares issued | 18,944 | 75,934 |
| Merger reserve on shares issued | – | 5,209 |
| Shares issued in relation to share-based schemes for which no cash consideration was received | (9,752) | (21,902) |
| **Proceeds from issue of share capital** | 9,262 | 59,467 |
| Shares repurchased and placed into the employee benefit trust | (18,567) | (15,132) |
| **Net issue/(repurchase) of ordinary shares** | (9,305) | 44,335 |

During the prior year, £21,902,000 of shares were issued for the vesting of the Speirs & Jeffrey first earn-out consideration. £5,223,000 of shares were also issued for the Saunderson House initial share consideration in 2021, and subsequently placed into the group EBT. There was no cash consideration received for these transactions. In addition to this, £9,909,000 of shares were repurchased and placed into the group EBT in 2021.

During the year, £5,700,507 of shares were issued for the vesting of the Speirs & Jeffrey second earn-out consideration. £4,051,950 of shares were also issued for the Saunderson House deferred share consideration. There was no cash consideration received for these transactions. £18,567,000 of shares were repurchased and placed into the group EBT in the year.

## 14 / CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

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

| | Subordinated loan notes £'000 | Lease liabilities £'000 | **Liabilities from financing activities £'000** | Share capital/ premium £'000 | Reserves £'000 | Retained earnings £'000 | **Total equity £'000** | **Total £'000** |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2022** | **39,893** | **54,971** | **94,864** | **294,126** | **40,339** | **288,817** | **623,282** | **718,146** |
| **Changes from financing cash flows** | | | | | | | | |
| Proceeds from issue of share capital | – | – | – | 9,262 | – | – | 9,262 | 9,262 |
| Payments for share repurchases | – | – | – | – | (18,567) | | (18,567) | (18,567) |
| Dividends paid | – | – | – | – | – | (48,607) | (48,607) | (48,607) |
| Interest charge | (2,257) | (3,063) | (5,320) | – | – | – | – | (5,320) |
| Payment for lease liabilities | – | (8,481) | (8,481) | – | – | – | – | (8,481) |
| **Total financing cash flows** | **(2,257)** | **(11,544)** | **(13,801)** | **9,262** | **(18,567)** | **(48,607)** | **(57,912)** | **(71,713)** |
| **Total non-cash movements** | **2,255** | **7,057** | **9,312** | **9,752** | **2,678** | **57,034** | **69,464** | **78,776** |
| **At 31 December 2022** | **39,891** | **50,484** | **90,375** | **313,140** | **24,450** | **297,244** | **634,834** | **725,209** |

| | Subordinated loan notes £'000 | Third-party debt £'000 | Lease liabilities £'000 | **Liabilities from financing activities £'000** | Share capital/ premium £'000 | Reserves £'000 | Retained earnings £'000 | **Total equity £'000** | **Total £'000** |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2021** | 19,768 | – | 56,124 | 75,892 | 217,966 | 25,012 | 270,849 | 513,827 | 589,719 |
| **Changes from financing cash flows** | | | | | | | | | |
| Proceeds from issue of share capital | – | – | – | – | 59,467 | – | – | 59,467 | 59,467 |
| Payments for share repurchases | – | – | – | – | – | (15,132) | – | (15,132) | (15,132) |
| Issue of loan notes | 39,893 | – | – | 39,893 | – | – | – | – | 39,893 |
| Repayment of loan notes | (20,114) | – | – | (20,114) | – | – | – | – | (20,114) |
| Dividends paid | – | – | – | – | – | – | (43,960) | (43,960) | (43,960) |
| Interest charge | (895) | – | - | (895) | – | – | – | – | (895) |
| Payment for lease liabilities | – | – | (5,109) | (5,109) | – | – | – | – | (5,109) |
| Repayment of debt | – | (45,208) | – | (45,208) | – | – | – | – | (45,208) |
| **Total financing cash flows** | 18,884 | (45,208) | (5,109) | (31,433) | 59,467 | (15,132) | (43,960) | 375 | (31,058) |
| **Total non-cash movements** | 1,241 | – | 3,956 | 5,197 | 16,693 | 30,459 | 61,928 | 109,080 | 114,277 |
| **At 31 December 2021** | 39,893 | – | 54,971 | 94,864 | 294,126 | 40,339 | 288,817 | 623,282 | 718,146 |

## 15 / EVENTS AFTER THE BALANCE SHEET DATE

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

## 16 / FINANCIAL INFORMATION

There have been no material events occurring between the balance sheet date and the date of signing this report. The financial information set out in this preliminary announcement has been extracted from the Group's financial statements, which have been approved by the Board of directors and agreed with the Company's auditor.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 December 2022 or 2021. Statutory financial statements for 2021 have been delivered to the Registrar of Companies. Statutory financial statements for 2022 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor has reported on both the 2022 and 2021 financial statements. Their reports were unqualified and did not draw attention to any matters by way of emphasis. They also did not contain statements under Section 498 of the Companies Act 2006.

## 17 / FORWARD LOOKING STATEMENTS

This announcement contains certain forward-looking statements, which are made by the directors in good faith based on the information available to them at the time of their approval of the 2022 annual report. Statements contained within this announcement should be treated with some caution due to the inherent uncertainties (including but not limited to those arising from economic, regulatory and business risk factors) underlying any such forward-looking statements. This announcement has been prepared by Rathbones Group Plc to provide information to its shareholders and should not be relied upon for any other purpose.

# INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF RATHBONES GROUP PLC ON THE PRELIMINARY ANNOUNCEMENT OF RATHBONES GROUP PLC**

As the independent auditor of Rathbones Group Plc we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Rathbones Group Plc's preliminary announcement statement of annual results for the period ended 31 December 2022.

The preliminary statement of annual results for the period ended 31 December 2022 includes:

- Disclosures required by the Listing Rules;
- Chair's statement;
- Group Chief Executive's statement;
- Financial performance;
- Segmental review;
- Financial position;
- Liquidity and cash flow;
- Risk management and control;
- Principal Risks;
- Consolidated statement of comprehensive income;
- Consolidated statement of changes in equity;
- Consolidated balance sheet;
- Consolidated statement of cash flows; and
- Notes 1 to 17 to the preliminary announcement.

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

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

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

### STATUS OF OUR AUDIT OF THE FINANCIAL STATEMENTS

Our audit of the annual financial statements of Rathbones Group Plc is complete and we signed our auditor's report on 28 February 2023. Our auditor's report is not modified and contains no emphasis of matter paragraph.

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

## IMPAIRMENT OF CLIENT RELATIONSHIP INTANGIBLE ASSETS AND GOODWILL

### KEY AUDIT MATTER DESCRIPTION

The group holds client relationship intangible assets of £175.0 million (2021: £193.6 million) and goodwill of £167.7 million (2021: £167.7 million) comprising both relationships acquired through business combinations and through acquisition of individual investment managers and their client portfolios.

We have identified this key audit matter as giving rise to a fraud risk, given the inherent judgement and level of estimation in the assumptions that support the annual impairment review.

As detailed in the summary of principal accounting policies in notes 1 and 2 in the full annual report (included within note 1 to this announcement), client relationship intangible assets are reviewed for indicators of impairment at each balance sheet date and, if an indicator of impairment exists, an impairment test is performed. Goodwill is tested for impairment at least annually, whether or not indicators of impairment exist.

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

For goodwill, the impairment assessment is performed by comparing the carrying amount of each cash generating unit ("CGU") to its recoverable amount from its value-in-use, calculated using a discounted cash flow method. In determining the value-in-use for the CGUs, management is required to make assumptions in relation to an appropriate income growth rate, expenditure growth rate and the discount rate. The discount rate, annual revenue growth rate and terminal growth rate used were 14.1%, 4.3%, and 1.0% respectively as disclosed in note 22 in the full annual report (included within note 8 to this announcement).

### HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

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

For client relationship intangible assets, we specifically tested the assumptions used by management as part of the impairment review exercise to assess whether they meet the requirements of IAS 36 "Impairment of Assets". We challenged the key assumptions around the impairment triggers identified for each client portfolio, which we have assessed for reasonableness, and we evaluated the accuracy of the inputs used by management.

Where the review indicated that an impairment trigger had occurred, we assessed the relevant assumptions and judgements made by management in determining whether an impairment needed to be recognised through the calculation of the assets' value-in-use ("VIU"). Our challenge focused specifically on the assumptions for the growth rate used for assets under management ("AUM"); organic new business, the client attrition rates, and the discount rate used.

For goodwill, in order to challenge the appropriateness of the income and expenditure growth assumptions used in the value-in-use calculation, we have back-tested the assumptions used by management against historical performance and checked for consistency with forecasts used elsewhere in the business. We challenged the determination of the discount rate applied by benchmarking to appropriate market rates of interest. We also independently re-performed management's VIU calculation.

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

We have performed a review of the disclosures included within the financial statements to determine whether all required information has been included for the impairment of client relationship intangible assets and goodwill.

### KEY OBSERVATIONS

Through our testing for client relationship intangible assets and goodwill, we concluded that management's approach and conclusion was appropriate and that the carrying value of client relationship intangible assets and goodwill as at 31 December 2022 is appropriate.

## DEFINED BENEFIT SCHEME ASSUMPTIONS

### KEY AUDIT MATTER DESCRIPTION

The group has recognised a defined benefit pension scheme net asset of £9.4 million (2021: net asset of £12.3 million). The net asset comprises scheme assets of £104.1 million (2021: £167.9 million) and a defined benefit obligation of £94.7 million (2021: £155.6 million).

The calculation of the defined benefit obligation is sensitive to changes in underlying assumptions and is considered to be a key source of estimation uncertainty for the group as detailed in note 2, disclosed in note 29 in the full annual report (included within note 10 to this announcement).

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

### HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

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

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

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

### KEY OBSERVATIONS

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

## INVESTMENT MANAGEMENT FEE REVENUE RELATING TO BESPOKE FEES

### KEY AUDIT MATTER DESCRIPTION

As detailed in the summary of principal accounting policies in note 1 and segmental information in note 3 in the full annual report (included within note 3 to this announcement), revenue comprises net investment management fee income of £337.0 million (2021: £349.4 million), net commission income of £48.9 million (2021: £53.6 million), net interest income of £18.3 million (2021: £3.9 million) and fees from advisory services and other income of £51.7 million (2021: £29.1 million).

Investment management ("IM") fees from the IM segment account for approximately 80% of total revenue and are based on a percentage of an individual client's funds under management ("FUM"). Due to its many long standing client relationships and history of acquisitions, the number of fee schedules managed by the group is high. This means that a number of clients are on bespoke rates rather than the current standard rates or legacy rates that were standard previously or at the time of acquisition.

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

### HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

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

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

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

### KEY OBSERVATIONS

We concluded that the investment management fee revenue is appropriately recognised for the year ended 31 December 2022.

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

### PROCEDURES PERFORMED TO AGREE TO THE PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS

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

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

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

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

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

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

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

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

## USE OF OUR REPORT

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

**Manbhinder Rana FCA (Senior Statutory Auditor)**
For and on behalf of Deloitte LLP

Statutory Auditor
London, United Kingdom

28 February 2023