

# 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.

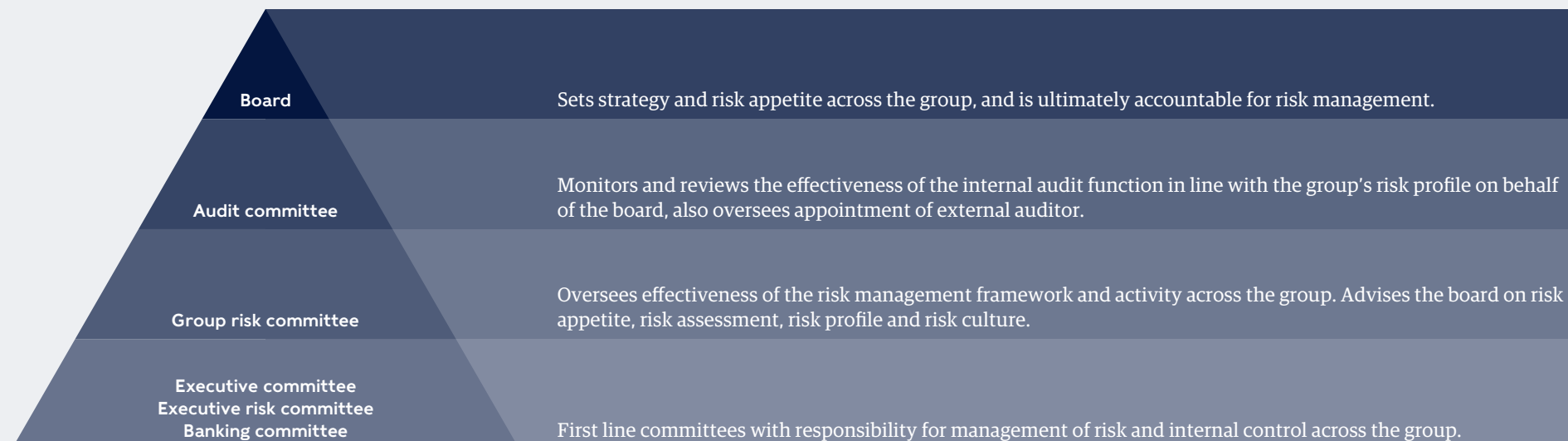
Our risk governance and risk management framework supports the chief executive and executive committee members with their day-to-day responsibility for managing risk.

## 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



## RISK MANAGEMENT AND CONTROL CONTINUED

**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.

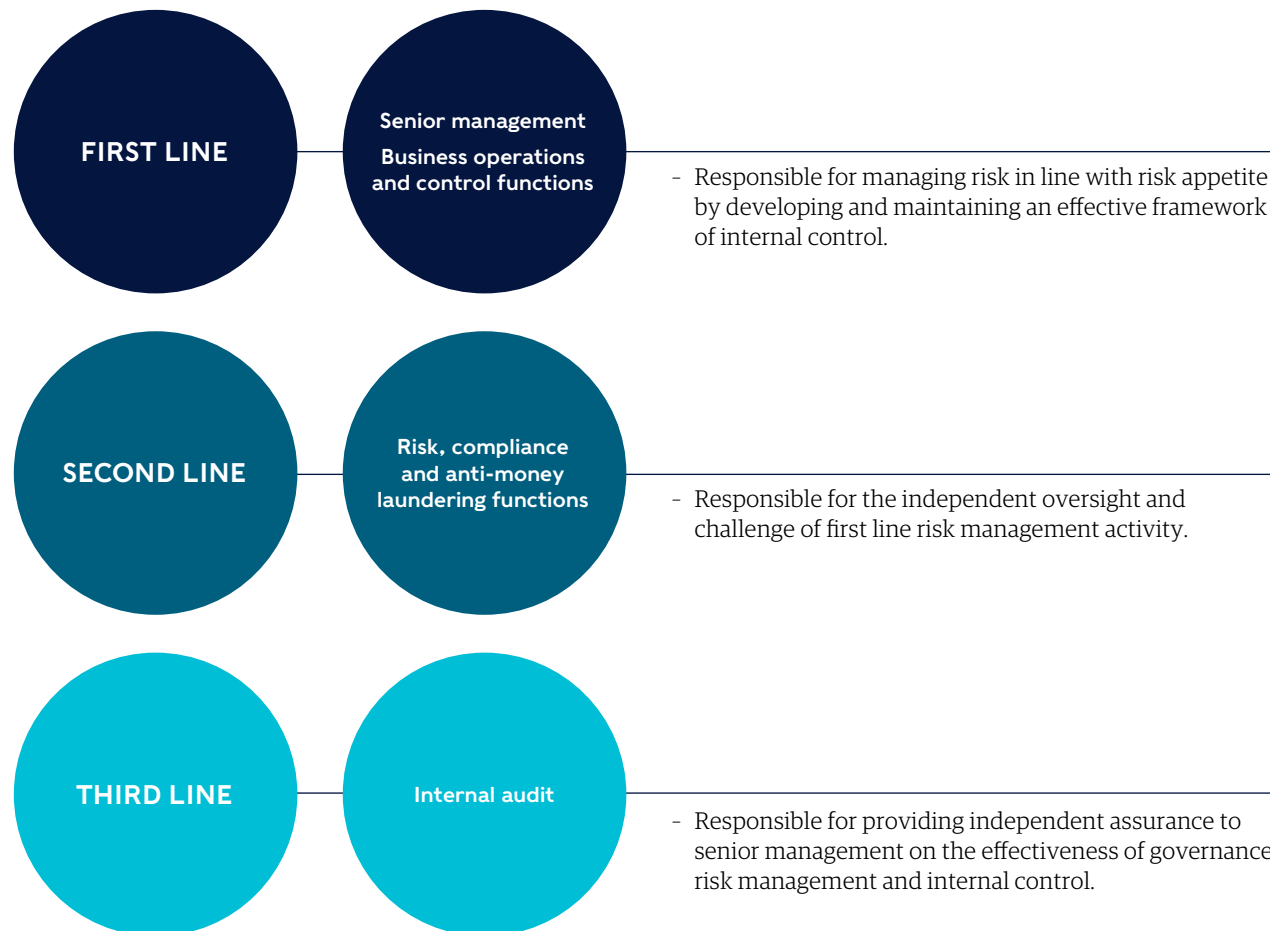
The position against our risk appetite statements and measures is assessed and reported on a regular basis to the executive committee, group risk committee and the board, so that risk mitigation can be reviewed and strengthened if needed.

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
<b>BUSINESS AND STRATEGIC RISK</b>	<p>Business and strategic risks will be identified and actively managed to protect the ability to deliver sustainable growth.</p> <p>Change initiatives will be orientated towards longer-term client, stakeholder and societal expectations.</p>	<ul style="list-style-type: none"> <li>- Underlying dividend cover</li> <li>- Strategic change delivery</li> <li>- Net zero and diversity targets</li> </ul>
<b>FINANCIAL RISK</b>	<p>Financial risks will be actively managed to preserve the group's overall resilience.</p> <p>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.</p> <p>The group will also continually monitor and respond to risks arising from its pension scheme obligations.</p>	<ul style="list-style-type: none"> <li>- Prudential ratios (e.g. CET Tier 1, Total Capital)</li> <li>- Counterparty credit exposures</li> <li>- Liquidity coverage ratio</li> </ul>
<b>NON-FINANCIAL RISK (CONDUCT AND OPERATIONAL)</b>	<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>- Operational losses and near misses</li> <li>- Regulatory and conduct breaches</li> </ul>

### THREE LINES OF DEFENCE

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



### 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.

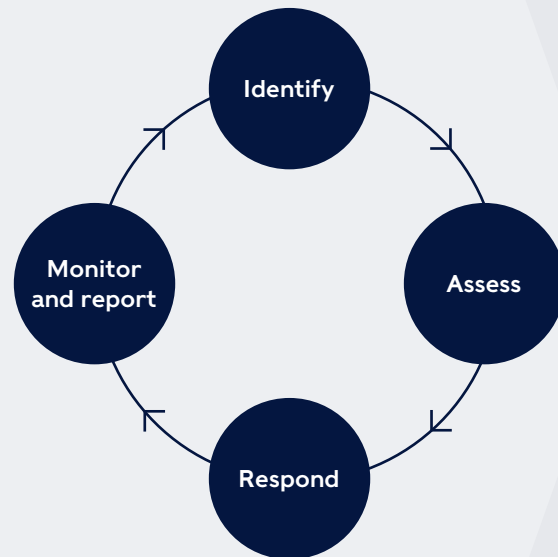
Risks are identified within a three-tier hierarchy, with the highest level containing business and strategic, financial, conduct and operational risks. Risks are assessed on an inherent and residual basis across a three-year period according to several impact criteria, which include consideration of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

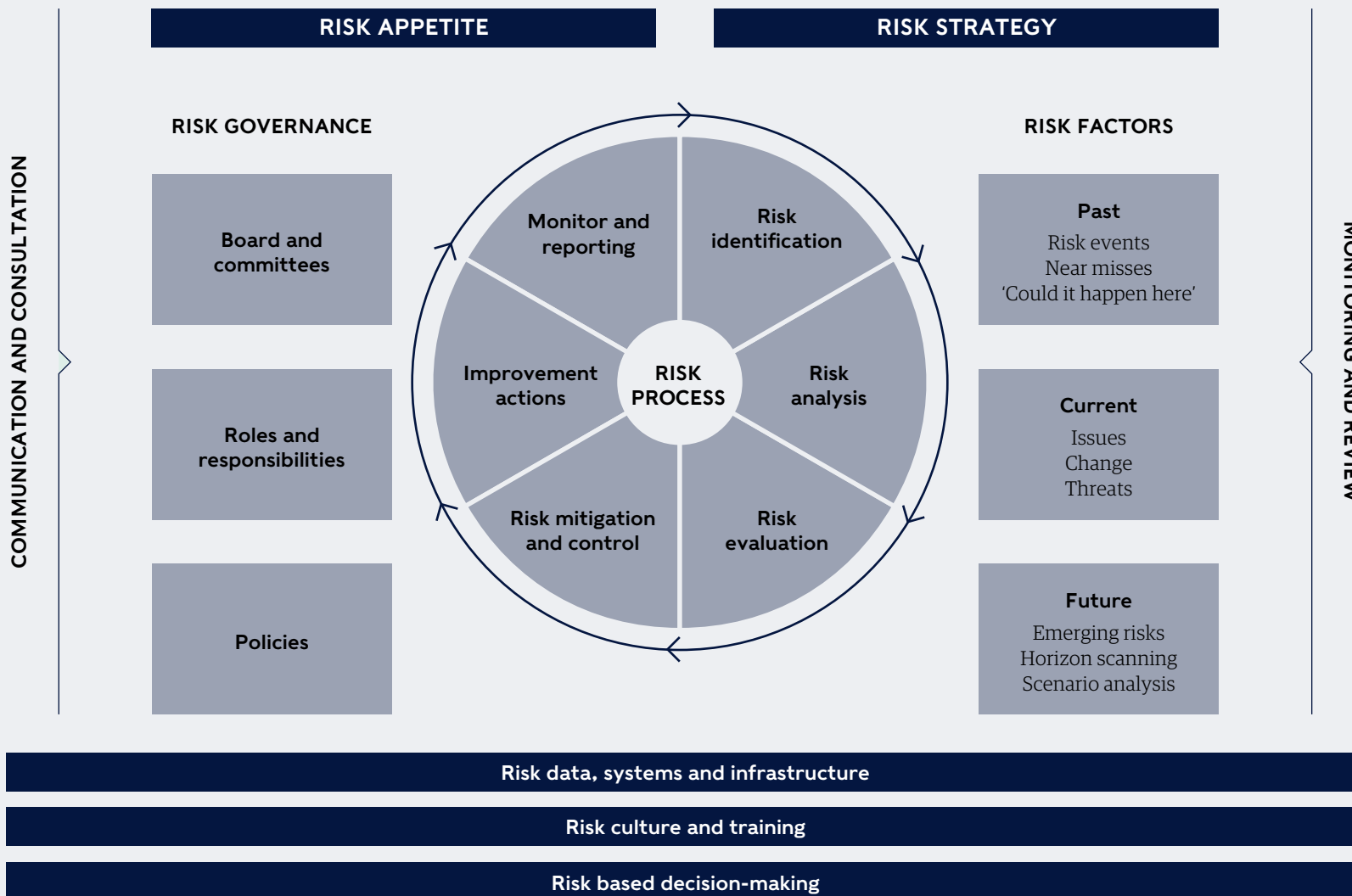
### MONITOR AND REPORT

- 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 AND CONTROL CONTINUED

**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

# PRINCIPAL RISKS

## PROFILE AND MITIGATION OF PRINCIPAL RISKS

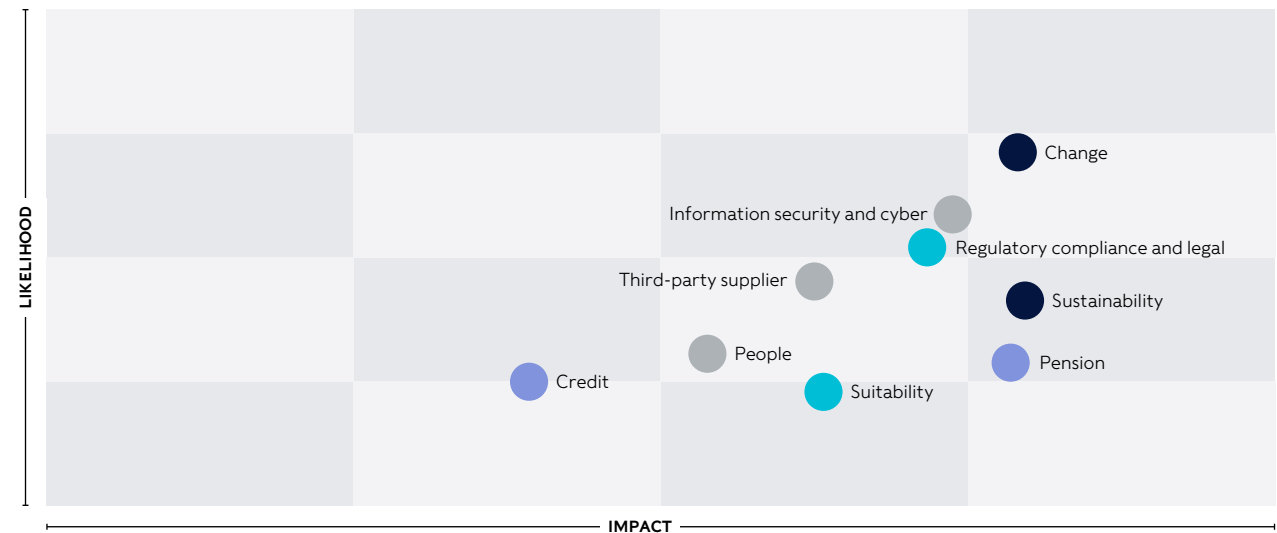
Overall we believe the group’s underlying risk profile is stable, however during the last year it has fluctuated as a result of market volatility and the changing economic and political landscape. We continually assess our risk profile against both internal and external risk drivers and are investing 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.

## PRINCIPAL RISKS - RESIDUAL ASSESSMENT






**L1 Risk category**

- Business and strategic
- Financial
- Conduct
- Operational





PRINCIPAL RISKS CONTINUED

Risk trend

-  Increasing
-  Stable
-  Decreasing




Risk profile

-  High
-  Medium
-  Low




RISK AND OWNER	CONTROL ENVIRONMENT	RISK TREND IN 2022
<p><b>CREDIT</b></p> <p>The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement</p> <p>Risk owner: Chief Financial Officer</p> <p>Risk profile: </p>	<ul style="list-style-type: none"> <li>- Banking committee and senior management oversight</li> <li>- Counterparty limits and credit reviews</li> <li>- Treasury policy and procedures</li> <li>- Client lending policy and procedures</li> <li>- Active monitoring of exposures</li> <li>- Annual ICAAP.</li> </ul>	<p> 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.</p>
<p><b>PENSION</b></p> <p>The risk that the cost of funding our defined benefit pension schemes increases, or their valuation affects dividends, reserves and regulatory own funds</p> <p>Risk owner: Chief Financial Officer</p> <p>Risk profile: </p>	<ul style="list-style-type: none"> <li>- Board, senior management and trustee oversight</li> <li>- Monthly valuation estimates</li> <li>- Triennial independent actuarial valuations</li> <li>- Investment policy</li> <li>- Senior management review and defined management actions</li> <li>- Annual ICAAP.</li> </ul>	<p> 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.</p>

PRINCIPAL RISKS CONTINUED

Risk trend

-  Increasing
-  Stable
-  Decreasing

Risk profile




-  High
-  Medium
-  Low

RISK AND OWNER	CONTROL ENVIRONMENT	RISK TREND IN 2022
<p><b>SUSTAINABILITY</b></p> <p>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</p> <p>Risk owner: Group Chief Executive Officer</p> <p>Risk profile: </p>	<ul style="list-style-type: none"> <li>- Board, executive and responsible business committee oversight</li> <li>- A documented strategy, including responsible investment policy</li> <li>- Monitoring of strategic risks</li> <li>- Annual business targets, subject to regular review and challenge</li> <li>- Regular reviews of pricing structure</li> <li>- Continued investment in the investment process, service standards and marketing</li> <li>- Regular competitor benchmarking and analysis</li> <li>- Commitment to diversity and inclusion themes</li> <li>- Trade body participation.</li> </ul>	<p> 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.</p> <p>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.</p>
<p><b>CHANGE</b></p> <p>The risk that the change portfolio does not support delivery of the group's strategy</p> <p>Risk owner: Chief Operating Officer</p> <p>Risk profile: </p>	<ul style="list-style-type: none"> <li>- Executive and board oversight of material change programmes</li> <li>- Transformation office programme board oversight and delivery-focused operating model</li> <li>- Differentiated governance approach to strategic change programmes and business projects</li> <li>- Dedicated change delivery function and use of internal and, where required, external subject matter experts</li> <li>- Two-stage assessment, challenge and approval of project plans</li> <li>- Planning and budgeting, monitoring of variances and actions to address</li> <li>- Documented project and change procedures.</li> </ul>	<p> 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.</p>






PRINCIPAL RISKS CONTINUED

Risk trend

-  Increasing
-  Stable
-  Decreasing




Risk profile

-  High
-  Medium
-  Low




RISK AND OWNER	CONTROL ENVIRONMENT	RISK TREND IN 2022
<p><b>REGULATORY COMPLIANCE AND LEGAL</b></p> <p>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</p> <p><b>Risk owner:</b> Group Chief Executive Officer and Chief Risk Officer</p> <p><b>Risk profile:</b> </p>	<ul style="list-style-type: none"> <li>- Board and executive oversight</li> <li>- Management oversight and active involvement with industry bodies</li> <li>- Compliance monitoring programme to examine the control of key regulatory risks</li> <li>- Separate anti-money laundering function with specific responsibility</li> <li>- Oversight of industry and regulatory developments</li> <li>- Documented policies and procedures</li> <li>- Employee training and development.</li> </ul>	<p> 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.</p>
<p><b>SUITABILITY</b></p> <p>The risk of an unsuitable client outcome either through service, investment mandate, investment decisions taken, investment recommendations made or portfolio or fund construction</p> <p><b>Risk owner:</b> Managing Director Rathbones Investment Management</p> <p><b>Risk profile:</b> </p>	<ul style="list-style-type: none"> <li>- Board, executive and general managers committee oversight</li> <li>- Investment governance and structured committee oversight</li> <li>- Management oversight and segregated quality assurance and performance teams</li> <li>- Performance measurement information and attribution analysis</li> <li>- 'Know your client' (KYC) suitability processes</li> <li>- Weekly investment management meetings</li> <li>- Training and competence framework</li> <li>- Investment manager reviews through supervisor sampling</li> <li>- Compliance monitoring.</li> </ul>	<p> 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.</p>

PRINCIPAL RISKS CONTINUED

Risk trend

-  Increasing
-  Stable
-  Decreasing




Risk profile

-  High
-  Medium
-  Low

RISK AND OWNER	CONTROL ENVIRONMENT	RISK TREND IN 2022
<p><b>INFORMATION SECURITY AND CYBER</b></p> <p>The risk of inappropriate access to, manipulation, or disclosure of, client or company-sensitive information</p> <p>Risk owner: Chief Operating Officer</p> <p>Risk profile: </p>	<ul style="list-style-type: none"> <li>- Board and executive oversight</li> <li>- Data governance committee and information security steering group oversight</li> <li>- Information security policy, data protection policy and associated procedures</li> <li>- System access controls and encryption</li> <li>- Penetration testing and multi-layer network security</li> <li>- Training and employee awareness programmes</li> <li>- Physical security.</li> </ul>	<p> 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.</p>
<p><b>PEOPLE</b></p> <p>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</p> <p>Risk owner: Chief People Officer</p> <p>Risk profile: </p>	<ul style="list-style-type: none"> <li>- Board and executive oversight</li> <li>- Succession and contingency planning</li> <li>- Transparent, consistent and competitive remuneration schemes</li> <li>- Contractual clauses with restrictive covenants</li> <li>- Continual investment in employee training and development</li> <li>- Employee engagement survey</li> <li>- Appropriate balanced performance measurement system</li> <li>- Culture monitoring and reporting.</li> </ul>	<p> 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.</p>

PRINCIPAL RISKS CONTINUED

Risk trend

-  Increasing
-  Stable
-  Decreasing

Risk profile

-  High
-  Medium
-  Low

RISK AND OWNER	CONTROL ENVIRONMENT	RISK TREND IN 2022
<p><b>THIRD-PARTY SUPPLIER</b></p> <p>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.</p> <p><b>Risk owner:</b> Chief Operating Officer and Chief Executive Officer, Rathbone Unit Trust Management</p> <p><b>Risk profile:</b> </p>	<ul style="list-style-type: none"> <li>- Board and executive oversight</li> <li>- Third-party supplier and outsourcing framework</li> <li>- Senior dedicated relationship managers</li> <li>- Supplier contracts and defined service level agreements/KPIs</li> <li>- Supplier due diligence and approval process</li> <li>- Close liaison, contractual reviews and regular service review meetings</li> <li>- Documented policy and procedures.</li> </ul>	<p> 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.</p>

## PRINCIPAL RISKS CONTINUED

**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.

## PRINCIPAL RISKS CONTINUED

# 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.