

Rathbone Brothers Plc  
Interim statement 2018



Rathbones  
Look forward





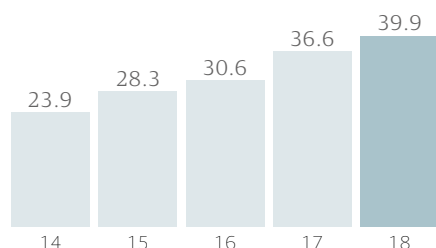
# Half year highlights

## Financial highlights as at 30 June 2018

### Funds under management (£bn)

£39.9bn

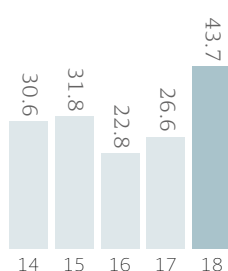
As at 30 June 2018 (31 December 2017: £39.1bn)



### Profit before tax (£m)

£43.7m

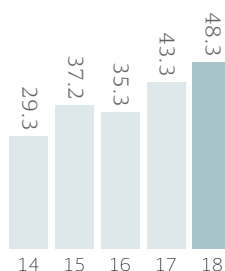
Half year 2018 (Full year 2017: £58.9m)



### Underlying<sup>1</sup> profit before tax (£m)

£48.3m

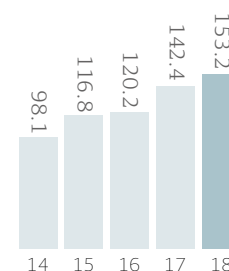
Half year 2018 (Full year 2017: £87.5m)



### Underlying operating income (£m)

£153.2m

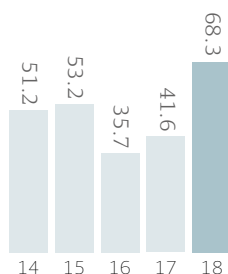
Half year 2018 (Full year 2017: £286.0)



### Basic earnings per share (p)

68.3p

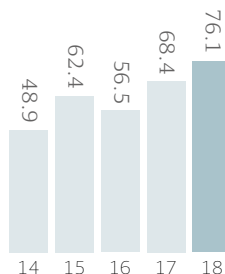
Half year 2018 (Full year 2017: 92.7p)



### Underlying<sup>1</sup> earnings per share (p)

76.1p

Half year 2018 (Full year 2017: 138.8p)



### Underlying operating margin<sup>2</sup> (%)

31.5%

Half year 2018	Half year 2017	Full year 2017
31.5%	30.4%	30.6%

### Dividends paid and proposed per share (p)

24.0p

Half year 2018	Half year 2017	Full year 2017
24.0p	22.0p	61.0p

1. Profit before tax and earnings per share include additional costs relating to the acquisition of Speirs & Jeffrey, the acquisition of the Vision businesses in 2015, the London head office move to 8 Finsbury Circus and charges in relation to client relationships and goodwill; underlying results exclude these items. A full reconciliation between the underlying results and the statutory presentation is shown in note 9.

2. Underlying profit before tax as a percentage of underlying operating income.

# Interim management report



**Mark Nicholls**  
Chairman



**Philip Howell**  
Chief Executive

The first half of 2018 was a busy period as we progressed a full project agenda, announced an important acquisition and implemented some significant regulatory change. Investment markets were somewhat volatile in the period but the FTSE 100 Index ended the period at 7637, broadly flat on the 7688 finishing point at the end of 2017. Our net organic growth in funds under management continues to contribute to our positive year-on-year financial performance.

## Continuing growth in funds under management

Funds under management reached £39.9 billion at 30 June 2018, up 2.0% from £39.1 billion at 31 December 2017 and up 9.0% from £36.6 billion at 30 June 2017. Total net organic growth in the business was 3.3% (30 June 2017: 4.1%).

Funds under management in our Investment Management business reached £34.1 billion, up 6.6% from the £32.0 billion we reported a year ago. Funds managed by our Unit Trusts business grew very strongly to £5.8 billion, a 26.1% increase year-on-year.

## Maintaining underlying profit margins

Underlying profit before tax reached £48.3 million, up 11.5% from the £43.3 million recorded at 30 June 2017. This represents an underlying operating margin of 31.5% (30 June 2017: 30.4%). Underlying earnings per share of 76.1p increased 11.3% from 68.4p in 2017, reflecting both underlying earnings growth and the impact of our £60.0 million share placing in June 2018.

Profit before tax for the six months to 30 June 2018 of £43.7 million was 64.3% higher than the £26.6 million in 2017. This reflects not only our underlying performance but also a number of significant non-underlying items in 2017.

At the beginning of June, we successfully assigned all legacy Curzon Street leases to a third party, which has resulted in a net write-back of non-underlying head office relocation costs of £2.9 million (30 June 2017: net costs of £15.8 million) in the period and has significantly reduced our exposure to property risk. A full reconciliation of underlying profit before tax and profit before tax can be found in note 9.

Our balance sheet remains healthy with a consolidated Common Equity Tier 1 ratio of 26.4% at 30 June 2018 (31 December 2017: 20.7%; 30 June 2017: 18.2%) and a consolidated leverage ratio of 9.9% at 30 June 2018 (31 December 2017: 7.8%; 30 June 2017: 6.2%). Our capital surplus of own funds (excluding year-to-date post-tax profits) over our regulatory capital requirement was £127.6 million at 30 June 2018 (£74.0 million at 31 December 2017), largely reflecting the impact of our £60.0 million placing ahead of the completion of the Speirs & Jeffrey acquisition.

The value of retirement benefit obligations remained relatively steady at £14.1 million at 30 June 2018, 9.6% lower than the £15.6 million recorded at 31 December 2017. This reflects an increase in long-term corporate bond yields and a reduction in the forecast rate of inflation, partially offset by an increase in the commutation factors applied by the trustees for members taking cash on retirement.

Finally, in line with our progressive dividend policy, the interim dividend has been increased by 2p per share to 24p (2017: 22p) and will be paid on 2 October 2018.

## Acquisition of Speirs & Jeffrey

In June 2018 we announced the acquisition of Speirs & Jeffrey, Scotland's largest independent wealth manager with funds under management of £6.7 billion as at 10 May 2018. This is an exciting opportunity for us, adding a like-minded business with a similar culture to our own and further strengthening Rathbones' long-held commitment to Scotland. Synergies arising from the combined business will have many benefits for stakeholders, including creating capacity to invest in our people, processes and infrastructure, as well as achieving additional strength and scale in the market.

The acquisition awaits regulatory approval and, as a result, is not due to complete until later this year, but work has commenced on a detailed plan to bring the business seamlessly into our group. Our priority is to ensure there is minimal disruption to Speirs & Jeffrey clients as well as our own operations, so, accordingly, the migration to our systems will be executed in a measured and carefully-planned way towards the middle of 2019. Our commitment to keeping client needs at the forefront of our plans will remain key in guiding our joint decision making.

As we announced in June, we expect this transaction to generate an underlying earnings per share accretion of at least 8% and return on investment of approximately 13% by the end of 2021.

## Continued strategic progress across business lines

### Investment Management

During the first six months of the year, our Investment Management business added £1.7 billion gross organic funds under management compared to £1.6 billion a year ago. Outflows of £1.3 billion (30 June 2017: £1.2 billion) in the first half represent 3.8% (30 June 2017: 4.0%) of opening funds under management and include the impact of a small number of investment manager departures. Net organic growth consequently totalled £0.4 billion, representing an annualised net organic growth rate of 2.1% (30 June 2017: 2.9%). Funds brought in by new teams added a further £0.1 billion of purchased business (30 June 2017: £0.2 billion) in the period.

We have continued to improve our client relationship management tools, to enhance our client documentation and to design automated solutions that will improve workflow in investment teams. We also continue to develop our investment process, adding additional overseas research resources to our equity research team in the first half of the year.

### Unit Trusts

Our Unit Trusts business continues to perform strongly, attracting net inflows of £299 million in the period. This has driven total funds under management to a record £5.8 billion at 30 June 2018 (30 June 2017: £4.6 billion). We continue to see positive momentum across our three largest funds (Income, Global Opportunities and Ethical Bond), with each now reporting over £1 billion under management. This strong growth is reflected in the financial performance of the Unit Trusts business, which reported a profit before tax of £6.4 million in the first six months of 2018 compared to £5.1 million a year ago, generating an operating profit margin of 35.6% compared to 34.2% a year ago. Income in 2018 continues to benefit from the generation of 'risk free' box dealing profits (£1.8 million in 2018 to date) but this is not expected to recur in 2019. Alongside the wider asset management industry, we also expect to face higher regulatory costs in 2019.

### Charities and ethical investment

As a firm, we have long recognised the growing cohort of clients who want to make a positive impact with their investments and this year our dedicated ethical and sustainable investment division, Rathbone Greenbank Investments, reached a record £1.2 billion of funds under management.

In line with growing retail demand, we also announced our intention to launch the Rathbone Global Sustainability Fund in July 2018. The fund will work closely with Rathbone Greenbank Investments and will invest in companies whose activities or ways of operating are aligned with sustainable development and will actively engage with companies to encourage positive change. The launch was the next logical step for our funds business, building on the success and strong growth of the Rathbone Ethical Bond Fund, which now manages £1.2 billion and earned the Judges' Choice for Fixed Income at the Investment Week Fund Manager of the Year awards in July 2018.

Our charities business also continues to be a leader in its field as the fourth largest charity manager in the United Kingdom. Funds managed with a charitable mandate across the firm increased 4.3% to £4.9 billion in the six months ended 30 June 2018. We continue to build our profile, supported by our seventh annual charity symposium in May, which gave charity trustees from across the United Kingdom a chance to discuss and debate the challenges of running a charity in the current political and economic environment.

## Continuing to build on distribution through intermediaries

Building our presence in the intermediary market also remains an important priority. Net flows from external independent financial adviser networks sourced by our specialist intermediary team were £153 million in the first half of 2018, up from £108 million a year ago.

Vision Independent Financial Planning continues to make excellent progress with funds under advice on its discretionary investment management panel now totalling £1.5 billion, up from £845 million when it was first fully acquired at the end of 2015. Recruitment in this business continues to be strong with a total of 121 advisers, up from 81 when it was initially acquired. Income from our internal financial planning service increased by 5.0% to £2.1 million in the period and plans to roll out an enhanced proposition in the second half are well advanced.

## Responding to industry change

The wealth management industry continues to undergo considerable change and the business is responding proactively to this. We continue to expect that our capital expenditure will remain at similar levels to 2017, reflecting ongoing improvements to our technology and additional client relationship management system developments, in addition to the regulatory costs associated with implementing MiFID II and GDPR in particular.

In March 2018, we published our gender pay gap data and the board recognises the importance of remedying the drivers behind the outcome. During the period, we also became signatories of the Women in Finance Charter as we look to help build a more balanced industry.

We will update our strategy for the medium term towards the end of this year and will continue to respond positively to the significant changes faced by our industry and take advantage of the opportunities these may present.

## Aligning incentives with shareholders

At the time we announced our 2017 full year results, we stated our intention to increase the level of employee ownership of Rathbone Brothers Plc shares. In May, we introduced a five year equity plan for eligible investment managers that gives them an opportunity to own shares at the end of a five year period and thereby share in the future success of Rathbones. Awards will be made in the form of nil-paid options over Rathbone Brothers Plc shares and are expected to cost approximately £4.5 million per annum over the award period, with a pro-rata charge in 2018. Shares will be purchased by the company in the open market over the award period. Further detail can be found in note 17.

## Board and senior management changes

We were delighted to welcome Terri Duhon to the board as a non-executive director in June 2018, subject to regulatory approval. Terri's breadth of experience in the financial services industry will be of great value to the board in the years ahead.

In May 2018, we announced that Paul Stockton, group finance director, had been appointed to the newly created role of managing director of Rathbone Investment Management. The additional role will strengthen the executive team as the business continues to grow. Paul will hold two executive roles until the process to recruit a new group finance director is completed.

## Business risks

The board believes that the nature of the principal risks and uncertainties which may have a material effect on the group's performance remain largely unchanged from those identified in the strategic report and group risk committee report in our 2017 annual report and accounts (pages 21 to 28 and pages 68 to 69 respectively).

We continue to monitor the potential consequences of Brexit very closely and while our current assessment is that the direct impacts will be manageable given our largely UK-based business model, we are conscious that the position might change and could raise unexpected challenges.

## Outlook

During the second half of the year, we will continue to prioritise the investment of time and financial resources in our investment management business, seeking to improve our services and the efficiency of our infrastructure. Alongside this, we will also focus on completing the Speirs & Jeffrey acquisition and planning for its successful transition into the Rathbones family.

This six month period has been a positive one for Rathbones and we remain confident in the outlook for the business.

**Mark Nicholls**  
Chairman

**Philip Howell**  
Chief Executive

24 July 2018

## Condensed consolidated interim financial statements

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# Consolidated interim statement of comprehensive income

for the six months ended 30 June 2018

	Note	Unaudited Six months to 30 June 2018 £'000	Unaudited Six months to 30 June 2017 £'000 (note 1)	Audited Year to 31 December 2017 £'000 (note 1)
Interest and similar income		<b>8,991</b>	6,323	13,501
Interest expense and similar charges		<b>(2,088)</b>	(723)	(1,907)
<b>Net interest income</b>		<b>6,903</b>	5,600	11,594
Fee and commission income		<b>154,232</b>	144,600	292,034
Fee and commission expense		<b>(10,855)</b>	(10,636)	(22,715)
<b>Net fee and commission income</b>		<b>143,377</b>	133,964	269,319
Net trading income		<b>1,777</b>	1,769	3,071
Gain on plan amendment of defined benefit pension schemes	15	-	5,523	5,523
Other operating income		<b>1,134</b>	1,041	2,065
<b>Operating income</b>		<b>153,191</b>	147,897	291,572
Charges in relation to client relationships and goodwill	12	<b>(6,198)</b>	(5,960)	(11,716)
Acquisition-related costs	4	<b>(1,308)</b>	(487)	(6,178)
Head office relocation	5	<b>2,924</b>	(15,769)	(16,248)
Other operating expenses		<b>(104,933)</b>	(99,095)	(198,529)
<b>Operating expenses</b>		<b>(109,515)</b>	(121,311)	(232,671)
<b>Profit before tax</b>		<b>43,676</b>	26,586	58,901
Taxation	7	<b>(8,931)</b>	(5,612)	(12,072)
<b>Profit for the period attributable to equity holders of the company</b>		<b>34,745</b>	20,974	46,829
<b>Other comprehensive income:</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Net remeasurement of defined benefit liability		<b>(17)</b>	13,495	17,288
Deferred tax relating to the net remeasurement of defined benefit liability		<b>3</b>	(2,294)	(2,939)
<b>Items that may be reclassified to profit or loss</b>				
Revaluation of available for sale investment securities:				
– net gain from changes in fair value		-	110	163
– net profit on disposal transferred to profit or loss during the period		-	(43)	(43)
		-	67	120
Deferred tax relating to revaluation of available for sale investment securities		-	(11)	(20)
<b>Other comprehensive income net of tax</b>		<b>(14)</b>	11,257	14,449
<b>Total comprehensive income for the period net of tax attributable to equity holders of the company</b>		<b>34,731</b>	32,231	61,278
Dividends paid and proposed for the period per ordinary share	8	<b>24.0p</b>	22.0p	61.0p
Dividends paid and proposed for the period		<b>13,000</b>	11,274	30,429
Earnings per share for the period attributable to equity holders of the company:	9			
– basic		<b>68.3p</b>	41.6p	92.7p
– diluted		<b>67.6p</b>	41.3p	91.9p



# Consolidated interim statement of changes in equity

for the six months ended 30 June 2018

				(note 1)		(note 1)	
	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Available for sale reserve £'000	Own shares £'000	Total equity £'000
At 1 January 2017 (audited)		2,535	139,991	31,835	150	(6,243)	156,545
Profit for the period							20,974
Net remeasurement of defined benefit liability							13,495
Revaluation of available for sale investment securities:							
– net gain from changes in fair value					110		110
– net profit on disposal transferred to profit or loss during the period					(43)		(43)
Deferred tax relating to components of other comprehensive income					(11)		(2,294)
Other comprehensive income net of tax		–	–	–	56	–	11,201
Dividends paid							(18,236)
Issue of share capital	16	27	2,718				2,745
Share-based payments:							
– value of employee services							1,095
– cost of own shares acquired						(437)	(437)
– cost of own shares vesting						1,336	–
– tax on share-based payments							232
<b>At 30 June 2017 (unaudited)</b>		<b>2,562</b>	<b>142,709</b>	<b>31,835</b>	<b>206</b>	<b>(5,344)</b>	<b>170,475</b>
Profit for the period							25,855
Net remeasurement of defined benefit liability							3,793
Net gain on revaluation of available for sale investment securities					53		53
Deferred tax relating to components of other comprehensive income					(9)		(645)
Other comprehensive income net of tax		–	–	–	44	–	3,148
Dividends paid							(11,184)
Issue of share capital	16	4	380				384
Share-based payments:							
– value of employee services							2,496
– cost of own shares acquired						(4)	(4)
– cost of own shares vesting						484	–
– tax on share-based payments							96
<b>At 31 December 2017 (audited)</b>		<b>2,566</b>	<b>143,089</b>	<b>31,835</b>	<b>250</b>	<b>(4,864)</b>	<b>190,402</b>
Adjustment on initial application of IFRS 9 (net of tax)	2				(250)		102
Adjustment on initial application of IFRS 15 (net of tax)	2						8,443
<b>Adjusted balance at 1 January 2018 (unaudited)</b>		<b>2,566</b>	<b>143,089</b>	<b>31,835</b>	<b>–</b>	<b>(4,864)</b>	<b>198,947</b>
Profit for the period							34,745
Net remeasurement of defined benefit liability							(17)
Deferred tax relating to components of other comprehensive income							3
Other comprehensive income net of tax		–	–	–	–	–	(14)
Dividends paid							(19,858)
Issue of share capital	16	142	61,472				61,614
Share-based payments:							
– value of employee services							1,603
– cost of own shares acquired						(2,225)	(2,225)
– cost of own shares vesting						1,605	–
– tax on share-based payments							395
<b>At 30 June 2018 (unaudited)</b>		<b>2,708</b>	<b>204,561</b>	<b>31,835</b>	<b>–</b>	<b>(5,484)</b>	<b>214,213</b>

# Consolidated interim balance sheet

as at 30 June 2018

	Note	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000 (note 1)	Audited 31 December 2017 £'000 (note 1)
<b>Assets</b>				
Cash and balances with central banks		<b>1,306,881</b>	1,480,932	1,375,382
Settlement balances		<b>75,519</b>	99,197	46,784
Loans and advances to banks		<b>127,328</b>	148,257	117,253
Loans and advances to customers	10	<b>122,864</b>	123,303	126,213
Investment securities:				
– fair value through profit or loss		<b>91,682</b>	–	–
– amortised cost		<b>775,839</b>	–	–
– available for sale		–	126,800	109,312
– held to maturity		–	590,005	701,966
Prepayments, accrued income and other assets		<b>94,366</b>	72,323	74,445
Property, plant and equipment	11	<b>16,207</b>	17,133	16,457
Deferred tax asset		<b>7,709</b>	8,623	9,061
Intangible assets	12	<b>163,149</b>	163,323	161,977
<b>Total assets</b>		<b>2,781,544</b>	2,829,896	2,738,850
<b>Liabilities</b>				
Deposits by banks		<b>3,785</b>	9,065	1,338
Settlement balances		<b>84,396</b>	122,026	54,452
Due to customers		<b>2,115,080</b>	2,215,117	2,170,498
Accruals, deferred income and other liabilities		<b>74,375</b>	71,497	84,679
Current tax liabilities		<b>7,134</b>	5,395	5,598
Provisions for liabilities and charges	13	<b>15,138</b>	24,692	23,712
Subordinated loan notes	14	<b>19,751</b>	19,643	19,695
Retirement benefit obligations	15	<b>14,052</b>	20,018	15,600
<b>Total liabilities</b>		<b>2,333,711</b>	2,487,453	2,375,572
<b>Equity</b>				
Share capital	16	<b>2,708</b>	2,562	2,566
Share premium	16	<b>204,561</b>	142,709	143,089
Merger reserve		<b>31,835</b>	31,835	31,835
Available for sale reserve	2	–	206	250
Own shares		<b>(5,484)</b>	(5,344)	(4,864)
Retained earnings		<b>214,213</b>	170,475	190,402
<b>Total equity</b>		<b>447,833</b>	342,443	363,278
<b>Total liabilities and equity</b>		<b>2,781,544</b>	2,829,896	2,738,850

The condensed consolidated interim financial statements were approved by the board of directors and authorised for issue on 24 July 2018 and were signed on their behalf by:

**Philip Howell**  
Chief Executive

**Paul Stockton**  
Finance Director

Company registered number: 01000403

# Consolidated interim statement of cash flows

for the six months ended 30 June 2018

	Note	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000 (note 1)	Audited 31 December 2017 £'000 (note 1)
<b>Cash flows from operating activities</b>				
Profit before tax		<b>43,676</b>	26,586	58,901
Net profit on disposal of available for sale investment securities		<b>-</b>	(43)	(43)
Net interest income		<b>(6,903)</b>	(5,600)	(11,594)
Net impairment charges/(recoveries) on loans and advances		<b>34</b>	(15)	1
Net (release)/charge for provisions	13	<b>(3,119)</b>	16,198	16,728
Depreciation, amortisation and impairment		<b>10,063</b>	10,014	19,415
Foreign exchange movements		<b>(910)</b>	-	1,480
Gain on plan amendment of defined benefit pension schemes	15	<b>-</b>	(5,523)	(5,523)
Defined benefit pension scheme charges		<b>175</b>	2,134	2,575
Defined benefit pension contributions paid		<b>(1,740)</b>	(2,553)	(3,619)
Share-based payment charges		<b>2,803</b>	1,765	3,871
Interest paid		<b>(2,022)</b>	(676)	(1,663)
Interest received		<b>9,385</b>	9,455	13,084
		<b>51,442</b>	51,742	93,613
Changes in operating assets and liabilities:				
– net decrease/(increase) in loans and advances to banks and customers		<b>32,660</b>	17,364	(16,643)
– net increase in settlement balance debtors		<b>(28,735)</b>	(61,410)	(8,997)
– net increase in prepayments, accrued income and other assets		<b>(20,019)</b>	(9,746)	(8,318)
– net (decrease)/increase in amounts due to customers and deposits by banks		<b>(52,971)</b>	334,991	282,647
– net increase in settlement balance creditors		<b>29,944</b>	82,737	15,163
– net (decrease)/increase in accruals, deferred income, provisions and other liabilities		<b>(10,690)</b>	(2,592)	8,146
<b>Cash generated from operations</b>		<b>1,631</b>	413,086	365,611
Tax paid		<b>(5,697)</b>	(6,833)	(14,087)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(4,066)</b>	406,253	351,524
<b>Cash flows from investing activities</b>				
Purchase of property, equipment and intangible assets		<b>(9,068)</b>	(9,923)	(16,123)
Purchase of investment securities		<b>(480,211)</b>	(295,703)	(746,566)
Proceeds from sale and redemption of investment securities		<b>407,215</b>	405,160	742,581
<b>Net cash (used in)/generated from investing activities</b>		<b>(82,064)</b>	99,534	(20,108)
<b>Cash flows from financing activities</b>				
Issue of ordinary shares	20	<b>59,389</b>	2,308	2,688
Dividends paid		<b>(19,858)</b>	(18,236)	(29,420)
<b>Net cash generated from/(used in) financing activities</b>		<b>39,531</b>	(15,928)	(26,732)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(46,599)</b>	489,859	304,684
Cash and cash equivalents at the beginning of the period		<b>1,567,758</b>	1,263,074	1,263,074
<b>Cash and cash equivalents at the end of the period</b>	20	<b>1,521,159</b>	1,752,933	1,567,758

# Notes to the condensed consolidated interim financial statements

## 1 Basis of preparation

Rathbone Brothers Plc ('the company') is the parent company of a group of companies ('the group') that is a leading provider of high-quality, personalised investment and wealth management services for private clients, charities and trustees. This includes discretionary investment management, unit trusts, tax planning, trust and company management, pension advice and banking services. The products and services from which the group derives its revenues are described in 'our business at a glance' on page 2 of the annual report and accounts for the year ended 31 December 2017 and have not materially changed since that date.

These condensed consolidated interim financial statements, on pages 6 to 28, are presented in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated interim financial statements have been prepared on a going concern basis, using the accounting policies, methods of computation and presentation set out in the group's financial statements for the year ended 31 December 2017 except as disclosed in note 2. The condensed consolidated interim financial statements should be read in conjunction with the group's audited financial statements for the year ended 31 December 2017, which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The information in this announcement does not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2017 are not the group's statutory accounts for that financial year. The group's financial statements for the year ended 31 December 2017 have been reported on by its auditors and delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified and did not draw attention to any matters by way of emphasis. It also did not contain a statement under section 498 of the Companies Act 2006.

## Developments in reporting standards and interpretations

### Standards and interpretations adopted during the current reporting period

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

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

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

### Future new standards and interpretations

#### IFRS 16 'Leases'

IFRS 16 is effective for periods commencing on or after 1 January 2019. The standard was endorsed by the European Union during 2017. The group has not adopted this standard early.

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

#### Transition

##### Definition of a lease

On transition to IFRS 16, the group can choose whether to:

- apply the new definition of a lease to all its contracts as if IFRS 16 had always applied; or
- apply a practical expedient and retain its previous assessments of which contracts contain a lease.

The group intends to apply the practical expedient and therefore will not be reassessing those contracts that are not deemed to contain a lease prior to the date of adoption.

##### Retrospective approach

As a lessee, the group can apply the standard using either:

- a retrospective approach; or
- a modified retrospective approach with optional practical expedients.

The group has assessed the impact of both approaches in relation to its existing lease contracts, and is most likely to apply the modified retrospective approach.

**Potential impact**

The group has conducted an initial quantification of the impact of adopting the standard, based on its existing lease contracts.

The group's total assets and total liabilities will be increased by the recognition of lease assets and liabilities. The lease assets will be depreciated over the shorter of the expected life of the asset and the lease term. The lease liability will be reduced by lease payments, offset by the unwinding of the liability over the lease term.

The most significant impact is in respect of the group's London head office premises. As at 30 June 2018, the group's future minimum lease payments under non-cancellable operating leases amounted to £89,841,000, on an undiscounted basis, of which £75,946,000 relates to its 8 Finsbury Circus office.

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

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

**Lessor accounting**

The group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease. The work to quantify the impact of being an intermediate lessor remains ongoing.

## 2 Changes in significant accounting policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the group's consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies will also be reflected in the group's consolidated financial statements as at and for the year ending 31 December 2018.

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

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

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

**IFRS 9 'Financial Instruments'**

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

**Transition**

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

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

- The nature of the business model under which a financial asset is managed.
- Whether the solely payments of principal and interest (SPPI) criterion is met.
- The designation of certain financial assets as measured at fair value through profit or loss.

If an investment in a debt instrument had a low credit risk at the date of initial application of IFRS 9, then the group assumes that the credit risk on the asset has not increased significantly since its initial recognition.



## 2 Changes in significant accounting policies continued

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

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

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

### Classification and measurement of financial assets and financial liabilities

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

The classification criteria for allocating financial assets between categories under IFRS 9 require the group to document the business models under which its assets are managed, distinguishing whether:

- its objective is to hold assets to collect contractual cash flows;
- its objective is both to collect contractual cash flows and to sell the asset; or
- it represents another type of business model (e.g. trading).

The group is also required to review contractual terms and conditions to determine whether the cash flows arising on these assets are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

The basis of classification for financial liabilities under IFRS 9 remains unchanged from under IAS 39. The two categories are amortised cost or fair value through profit or loss (either designated as such or held for trading).

The group has not designated any liabilities as fair value through profit or loss. Therefore, under IFRS 9, the group has classified all financial liabilities as amortised cost, with no material impact on measurement.

### **Impairment of financial assets**

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

Under the ECL model, a dual measurement approach applies whereby a financial asset will attract an ECL allowance equal to either:

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

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

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

### **Measurement of ECLs**

#### **Treasury book and investment management loan book**

The group has developed a detailed model for calculating ECLs on its treasury book and investment management loan book. This requires considerable judgement in developing different economic scenarios and probability-weighting them accordingly.

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

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

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

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

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

The impact of applying this methodology as at 1 January 2018 is shown on the following page.

#### **Trust and financial planning debtors**

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

Applying this methodology as at 1 January 2018 resulted in an impairment loss provision of £87,000 under IFRS 9 relating to trust and financial planning debtors (31 December 2017: £66,000 under IAS 39). This methodology has also been applied at the interim reporting date.

### **Credit-impaired financial assets**

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

### **Presentation of impairment**

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

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

## 2 *Changes in significant accounting policies continued*

### Impact of the new impairment model

The group has determined that the initial application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment provision as follows:

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

### IFRS 15 'Revenue from Contracts with Customers'

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

#### Transition

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

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

### Impact on financial statements for the six months to 30 June 2018

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

#### Net fee and commission income

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

The adoption of IFRS 15 has not had a significant impact on the group's accounting policies for revenue recognition.

A breakdown of the timing of revenue recognition can be found in note 3.

#### Contract costs

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

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

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

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

The following tables summarise the impacts of adopting IFRS 15 on the group's interim statement of comprehensive income for the six months ended 30 June 2018 and its interim balance sheet as at that date for each of the line items affected. There was no impact on the group's interim statement of cash flows for the six month period ended 30 June 2018.

**Impact on the condensed consolidated interim statement of comprehensive income (extract)**

	As reported unaudited Six months to 30 June 2018 £'000	Adjustments £'000	Amounts without adoption of IFRS 15 £'000
<b>Operating income</b>	<b>153,191</b>	238	153,429
Charges in relation to client relationships and goodwill	(6,198)	373	(5,825)
Other operating expenses	(104,933)	(112)	(105,045)
Operating expenses	(109,515)	261	(109,254)
<b>Profit before tax</b>	<b>43,676</b>	499	44,175
Taxation	(8,931)	(95)	(9,026)
<b>Profit for the period attributable to equity holders of the company</b>	<b>34,745</b>	404	35,149
<b>Other comprehensive income net of tax</b>	<b>(14)</b>	-	(14)
<b>Total comprehensive income for the period net of tax attributable to equity holders of the company</b>	<b>34,731</b>	404	35,135

**Impact on the condensed consolidated interim balance sheet (extract)**

	As reported unaudited 30 June 2018 £'000	Adjustments £'000	Amounts without adoption of IFRS 15 £'000
<b>Assets</b>			
Prepayments, accrued income and other assets	94,366	(59)	94,307
Intangible assets	163,149	(8,461)	154,688
<b>Total assets</b>	<b>2,781,544</b>	(8,520)	2,773,024
<b>Liabilities</b>			
Accruals, deferred income and other liabilities	74,375	1,966	76,341
Current tax liabilities	7,134	38	7,172
Provisions for liabilities and charges	15,138	(2,052)	13,086
<b>Total liabilities</b>	<b>2,333,711</b>	(48)	2,333,663
<b>Equity</b>			
Retained earnings	214,213	(8,472)	205,741
<b>Total equity</b>	<b>447,833</b>	(8,472)	439,361
<b>Total liabilities and equity</b>	<b>2,781,544</b>	(8,520)	2,773,024

### 3 Segmental information

For management purposes, the group is organised into two operating divisions: Investment Management and Unit Trusts. Centrally incurred indirect expenses are allocated to these operating segments on the basis of the cost drivers that generate the expenditure. These are, principally, the headcount of staff directly involved in providing those services from which the segment earns revenues, the value of funds under management 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 executive committee, which is the group's chief operating decision maker.

	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
<b>Six months ended 30 June 2018 (unaudited)</b>				
Net investment management fee income	<b>98,350</b>	<b>15,916</b>	-	<b>114,266</b>
Net commission income	<b>20,973</b>	-	-	<b>20,973</b>
Net interest income	<b>6,903</b>	-	-	<b>6,903</b>
Fees from advisory services and other income	<b>9,087</b>	<b>1,962</b>	-	<b>11,049</b>
<b>Underlying operating income</b>	<b>135,313</b>	<b>17,878</b>	-	<b>153,191</b>
Staff costs – fixed	<b>(31,864)</b>	<b>(1,658)</b>	<b>(13,289)</b>	<b>(46,811)</b>
Staff costs – variable	<b>(17,759)</b>	<b>(3,813)</b>	<b>(4,349)</b>	<b>(25,921)</b>
<b>Total staff costs</b>	<b>(49,623)</b>	<b>(5,471)</b>	<b>(17,638)</b>	<b>(72,732)</b>
Other direct expenses	<b>(12,086)</b>	<b>(3,012)</b>	<b>(17,103)</b>	<b>(32,201)</b>
Allocation of indirect expenses	<b>(31,707)</b>	<b>(3,034)</b>	<b>34,741</b>	-
<b>Underlying operating expenses</b>	<b>(93,416)</b>	<b>(11,517)</b>	-	<b>(104,933)</b>
<b>Underlying profit before tax</b>	<b>41,897</b>	<b>6,361</b>	-	<b>48,258</b>
Charges in relation to client relationships and goodwill (note 12)	<b>(6,198)</b>	-	-	<b>(6,198)</b>
Acquisition-related costs (note 4)	<b>(669)</b>	-	<b>(639)</b>	<b>(1,308)</b>
<b>Segment profit before tax</b>	<b>35,030</b>	<b>6,361</b>	<b>(639)</b>	<b>40,752</b>
Head office relocation (note 5)				<b>2,924</b>
<b>Profit before tax</b>				<b>43,676</b>
Taxation (note 7)				<b>(8,931)</b>
<b>Profit for the period attributable to equity holders of the company</b>				<b>34,745</b>
	Investment Management £'000	Unit Trusts £'000		Total £'000
Segment total assets	<b>2,681,662</b>	<b>95,976</b>		<b>2,777,638</b>
Unallocated assets				<b>3,906</b>
<b>Total assets</b>				<b>2,781,544</b>



	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
<b>Six months ended 30 June 2017 (unaudited)</b>				
Net investment management fee income	92,523	13,018	-	105,541
Net commission income	21,869	-	-	21,869
Net interest income	5,600	-	-	5,600
Fees from advisory services and other income	7,433	1,931	-	9,364
<b>Underlying operating income</b>	<b>127,425</b>	<b>14,949</b>	<b>-</b>	<b>142,374</b>
Staff costs – fixed	(30,448)	(1,545)	(12,744)	(44,737)
Staff costs – variable	(19,675)	(3,507)	(2,604)	(25,786)
<b>Total staff costs</b>	<b>(50,123)</b>	<b>(5,052)</b>	<b>(15,348)</b>	<b>(70,523)</b>
Other direct expenses	(10,389)	(1,830)	(16,353)	(28,572)
Allocation of indirect expenses	(28,743)	(2,958)	31,701	-
<b>Underlying operating expenses</b>	<b>(89,255)</b>	<b>(9,840)</b>	<b>-</b>	<b>(99,095)</b>
<b>Underlying profit before tax</b>	<b>38,170</b>	<b>5,109</b>	<b>-</b>	<b>43,279</b>
Charges in relation to client relationships and goodwill (note 12)	(5,960)	-	-	(5,960)
Acquisition-related costs (note 4)	(487)	-	-	(487)
<b>Segment profit before tax</b>	<b>31,723</b>	<b>5,109</b>	<b>-</b>	<b>36,832</b>
Gain on plan amendment of defined benefit pension schemes (note 15)				5,523
Head office relocation (note 5)				(15,769)
<b>Profit before tax</b>				<b>26,586</b>
Taxation (note 7)				(5,612)
<b>Profit for the period attributable to equity holders of the company</b>				<b>20,974</b>
	Investment Management £'000	Unit Trusts £'000		Total £'000
Segment total assets	2,758,696	66,358		2,825,054
Unallocated assets				4,842
<b>Total assets</b>				<b>2,829,896</b>
	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
<b>Year ended 31 December 2017 (audited)</b>				
Net investment management fee income	189,465	28,020	-	217,485
Net commission income	38,729	-	-	38,729
Net interest income	11,594	-	-	11,594
Fees from advisory services and other income	14,831	3,410	-	18,241
<b>Underlying operating income</b>	<b>254,619</b>	<b>31,430</b>	<b>-</b>	<b>286,049</b>
Staff costs – fixed	(59,457)	(3,040)	(25,294)	(87,791)
Staff costs – variable	(40,240)	(7,246)	(5,843)	(53,329)
<b>Total staff costs</b>	<b>(99,697)</b>	<b>(10,286)</b>	<b>(31,137)</b>	<b>(141,120)</b>
Other direct expenses	(21,893)	(4,415)	(31,101)	(57,409)
Allocation of indirect expenses	(56,188)	(6,050)	62,238	-
<b>Underlying operating expenses</b>	<b>(177,778)</b>	<b>(20,751)</b>	<b>-</b>	<b>(198,529)</b>
<b>Underlying profit before tax</b>	<b>76,841</b>	<b>10,679</b>	<b>-</b>	<b>87,520</b>
Charges in relation to client relationships and goodwill (note 12)	(11,716)	-	-	(11,716)
Acquisition-related costs (note 4)	(1,273)	-	(4,905)	(6,178)
<b>Segment profit before tax</b>	<b>63,852</b>	<b>10,679</b>	<b>(4,905)</b>	<b>69,626</b>
Gain on plan amendment of defined benefit pension schemes (note 15)				5,523
Head office relocation (note 5)				(16,248)
<b>Profit before tax</b>				<b>58,901</b>
Taxation (note 7)				(12,072)
<b>Profit for the year attributable to equity holders of the company</b>				<b>46,829</b>
	Investment Management £'000	Unit Trusts £'000		Total £'000
Segment total assets	2,659,723	74,672		2,734,395
Unallocated assets				4,455
<b>Total assets</b>				<b>2,738,850</b>

### 3 Segmental information continued

The following table reconciles underlying operating income to operating income:

	Unaudited Six months to 30 June 2018 £'000	Unaudited Six months to 30 June 2017 £'000	Audited Year to 31 December 2017 £'000
Underlying operating income	<b>153,191</b>	142,374	286,049
Gain on plan amendment of defined benefit pension schemes (note 15)	–	5,523	5,523
<b>Operating income</b>	<b>153,191</b>	147,897	291,572

The following table reconciles underlying operating expenses to operating expenses:

	Unaudited Six months to 30 June 2018 £'000	Unaudited Six months to 30 June 2017 £'000	Audited Year to 31 December 2017 £'000
Underlying operating expenses	<b>104,933</b>	99,095	198,529
Charges in relation to client relationships and goodwill (note 12)	<b>6,198</b>	5,960	11,716
Acquisition-related costs (note 4)	<b>1,308</b>	487	6,178
Head office relocation (note 5)	<b>(2,924)</b>	15,769	16,248
<b>Operating expenses</b>	<b>109,515</b>	121,311	232,671

Included within Investment Management underlying operating income is £1,247,000 (30 June 2017: £951,000; 31 December 2017: £2,049,000) of fees and commissions receivable from Unit Trusts. Intersegment sales are charged at prevailing market prices.

#### Geographic analysis

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

	Unaudited Six months to 30 June 2018 £'000	Unaudited Six months to 30 June 2017 £'000	Audited Year to 31 December 2017 £'000
United Kingdom	<b>147,717</b>	142,503	280,892
Jersey	<b>5,474</b>	5,394	10,680
<b>Operating income</b>	<b>153,191</b>	147,897	291,572

The group's non-current assets are substantially all located in the United Kingdom.

#### Timing of revenue recognition

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

	Unaudited Six months to 30 June 2018		Unaudited Six months to 30 June 2017		Audited Year to 31 December 2017	
	Investment Management £'000	Unit Trusts £'000	Investment Management £'000	Unit Trusts £'000	Investment Management £'000	Unit Trusts £'000
Products and services transferred at a point in time	<b>22,311</b>	<b>1,794</b>	23,493	1,787	42,036	3,104
Products and services transferred over time	<b>113,002</b>	<b>16,084</b>	103,932	13,162	212,583	28,326
<b>Underlying operating income</b>	<b>135,313</b>	<b>17,878</b>	127,425	14,949	254,619	31,430

#### Major clients

The group is not reliant on any one client or group of connected clients for generation of revenues. At 30 June 2018, the group provided investment management services to 51,000 clients (30 June 2017: 49,000; 31 December 2017: 50,000).

## 4 Acquisition-related costs

### Costs relating to the acquisition of Speirs & Jeffrey

On 14 June 2018, the group announced it was acquiring 100% of the share capital of Speirs & Jeffrey, subject to approval by FCA. The group incurred professional services costs of £639,000 (30 June 2017 and 31 December 2017: £nil) in relation to the acquisition in the six months ended 30 June 2018. Further costs of up to £2,000,000 become payable subject to the completion of the transaction.

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

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

	Unaudited Six months to 30 June 2018 £'000	Unaudited Six months to 30 June 2017 £'000	Audited Year to 31 December 2017 £'000
Staff costs	498	438	1,026
Interest expense	171	49	247
	<b>669</b>	487	1,273

Amounts reported in staff costs relate to deferred payments to previous owners who remain in employment with the acquired companies.

### Costs relating to merger discussions with Smith & Williamson

In the year ended 31 December 2017 the group incurred professional services costs of £4,905,000 (30 June 2017: £1,845,000) in relation to the merger discussions with Smith & Williamson. On 31 August 2017, the group announced that these discussions had been terminated. Thus no such costs have been incurred in the six months ended 30 June 2018.

## 5 Head office relocation

On 6 June 2018, the group completed the assignment of its leases on surplus property at 1 Curzon Street. The completion of the deal triggered a release of £3,726,000 from the onerous lease provision held over the property (see note 13).

During the six months to 30 June 2018, a credit of £2,924,000 (30 June 2017: costs of £15,769,000 were incurred; 31 December 2017: costs of £16,248,000 were incurred) was incurred. These incremental costs were as follows:

	Unaudited Six months to 30 June 2018 £'000	Unaudited Six months to 30 June 2017 £'000	Audited Year to 31 December 2017 £'000
Rental costs for 8 Finsbury Circus prior to relocation	-	538	536
Accelerated depreciation charge for 1 Curzon Street	-	779	779
Provision for dilapidations	492	123	248
Credit/charge in relation to onerous lease provision (note 13)	<b>(3,726)</b>	15,617	16,064
Interest charge in relation to onerous lease provision	43	338	201
Release of rent free period and landlord contribution on recognition of the onerous lease provision	-	(2,148)	(2,148)
Professional and other costs	267	522	568
	<b>(2,924)</b>	15,769	16,248

## 6 Staff numbers

The average number of employees, on a full time equivalent basis, during the period was as follows:

	Unaudited Six months to 30 June 2018	Unaudited Six months to 30 June 2017	Audited Year to 31 December 2017
Investment Management:			
– investment management services	769	724	734
– advisory services	103	89	92
Unit Trusts	32	27	28
Shared services	321	283	293
	<b>1,225</b>	1,123	1,147

## 7 Taxation

The tax expense for the six months ended 30 June 2018 was calculated based on the estimated average annual effective tax rate. The overall effective tax rate for this period was 20.4% (six months ended 30 June 2017: 21.1%; year ended 31 December 2017: 20.5%).

	Unaudited Six months to 30 June 2018 £'000	Unaudited Six months to 30 June 2017 £'000	Audited Year to 31 December 2017 £'000
United Kingdom taxation	<b>7,389</b>	5,527	12,855
Overseas taxation	<b>153</b>	179	307
Deferred taxation	<b>1,389</b>	(94)	(1,090)
	<b>8,931</b>	5,612	12,072

The underlying United Kingdom corporation tax rate for the year ending 31 December 2018 is 19.0% (2017: 19.2%).

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

## 8 Dividends

An interim dividend of 24.0p per share was declared on 24 July 2018 and is payable on 2 October 2018 to shareholders on the register at the close of business on 7 September 2018 (30 June 2017: 22.0p). In accordance with IFRS, the interim dividend has not been included as a liability in this interim statement. A final dividend for 2017 of 39.0p per share was paid on 14 May 2018.

## 9 Earnings per share

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

	Unaudited Six months to 30 June 2018		Unaudited Six months to 30 June 2017		Audited Year to 31 December 2017	
	Pre-tax £'000	Post-tax £'000	Pre-tax £'000	Post-tax £'000	Pre-tax £'000	Post-tax £'000
Underlying profit attributable to equity holders	<b>48,258</b>	<b>38,713</b>	43,279	34,457	87,520	70,094
Gain on plan amendment of defined benefit pension schemes (note 15)	-	-	5,523	4,460	5,523	4,460
Charges in relation to client relationships and goodwill (note 12)	<b>(6,198)</b>	<b>(5,020)</b>	(5,960)	(4,813)	(11,716)	(9,461)
Acquisition-related costs (note 4)	<b>(1,308)</b>	<b>(1,308)</b>	(487)	(487)	(6,178)	(5,234)
Head office relocation (note 5)	<b>2,924</b>	<b>2,360</b>	(15,769)	(12,643)	(16,248)	(13,030)
<b>Profit attributable to equity holders</b>	<b>43,676</b>	<b>34,745</b>	26,586	20,974	58,901	46,829

Basic earnings per share has been calculated by dividing profit attributable to equity holders by the weighted average number of shares in issue throughout the period, excluding own shares, of 50,855,180 (30 June 2017: 50,403,394; 31 December 2017: 50,493,984).

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

	Unaudited 30 June 2018	Unaudited 30 June 2017	Audited 31 December 2017
Weighted average number of ordinary shares in issue during the period - basic	<b>50,855,180</b>	50,403,394	50,493,984
Effect of ordinary share options/Save As You Earn	<b>163,305</b>	171,711	188,549
Effect of dilutive shares issuable under the Share Incentive Plan	<b>12,065</b>	11,043	59,030
Effect of contingently issuable ordinary shares under the Executive Incentive Plan	<b>353,605</b>	221,128	228,702
<b>Diluted ordinary shares</b>	<b>51,384,155</b>	50,807,276	50,970,265

	Unaudited Six months to 30 June 2018	Unaudited Six months to 30 June 2017	Audited Year to 31 December 2017
Underlying earnings per share for the period attributable to equity holders of the company:			
- basic	<b>76.1p</b>	68.4p	138.8p
- diluted	<b>75.3p</b>	67.8p	137.5p

## 10 Loans and advances to customers

	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	Audited 31 December 2017 £'000
Overdrafts	4,691	6,997	4,621
Investment management loan book	117,082	115,538	120,509
Trust and financial planning debtors	1,062	748	1,048
Other debtors	29	20	35
	<b>122,864</b>	123,303	126,213

## 11 Property, plant and equipment

During the six months ended 30 June 2018, the group purchased assets with a cost of £1,638,000 (six months ended 30 June 2017: £3,022,000; year ended 31 December 2017: £4,265,000). The move to 8 Finsbury Circus accounted for £nil (six months ended 30 June 2017: £2,760,000; year ended 31 December 2017: £2,821,000) of the amount capitalised in the six months ended 30 June 2018.

## 12 Intangible assets

	Goodwill £'000	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total intangibles £'000
<b>Cost</b>					
At 31 December 2017 (audited)	64,272	145,412	5,759	30,590	246,033
Adjustment on initial application of IFRS 15 (note 2)	-	9,691	-	-	9,691
At 1 January 2018 (unaudited)	<b>64,272</b>	<b>155,103</b>	<b>5,759</b>	<b>30,590</b>	<b>255,724</b>
Internally developed in the period	-	-	660	-	660
Purchased in the period	-	1,359	-	2,261	3,620
Disposals	-	(1,103)	-	-	(1,103)
Revaluation of assets	-	(3,201)	-	-	(3,201)
<b>At 30 June 2018</b>	<b>64,272</b>	<b>152,158</b>	<b>6,419</b>	<b>32,851</b>	<b>255,700</b>
<b>Amortisation and impairment</b>					
At 31 December 2017 (audited)	1,090	56,901	4,529	21,536	84,056
Adjustment on initial application of IFRS 15 (note 2)	-	1,423	-	-	1,423
At 1 January 2018 (unaudited)	<b>1,090</b>	<b>58,324</b>	<b>4,529</b>	<b>21,536</b>	<b>85,479</b>
Charge in the period	269	5,929	293	1,684	8,175
Disposals	-	(1,103)	-	-	(1,103)
<b>At 30 June 2018</b>	<b>1,359</b>	<b>63,150</b>	<b>4,822</b>	<b>23,220</b>	<b>92,551</b>
<b>Carrying value at 30 June 2018 (unaudited)</b>	<b>62,913</b>	<b>89,008</b>	<b>1,597</b>	<b>9,631</b>	<b>163,149</b>
Carrying value at 30 June 2017 (unaudited)	63,182	93,120	1,050	5,971	163,323
Carrying value at 31 December 2017 (audited)	63,182	88,511	1,230	9,054	161,977
Carrying value at 1 January 2018 (unaudited)	63,182	96,779	1,230	9,054	170,245

The total amount charged to profit or loss in the period, in relation to goodwill and client relationships, was £6,198,000 (six months ended 30 June 2017: £5,960,000; year ended 31 December 2017: £11,716,000).

The value of certain awards related to client relationships were reduced by £3,201,000 during the period as not all performance conditions were ultimately met.



## 12 Intangible assets continued

### Impairment

During the period, the group updated its assessment of goodwill allocated to the investment management, trust and tax and Rooper & Whately cash generating units (CGUs) for impairment.

The recoverable amounts of goodwill allocated to the CGUs are determined from value-in-use calculations. There was no indication of impairment of goodwill allocated to the investment management or Rooper & Whately CGUs during the period.

The calculated recoverable amount of goodwill allocated to the trust and tax CGU at 30 June 2018 was £595,000, which was lower than the carrying value of £864,000 at 31 December 2017. The recoverable amount was calculated based on forecast earnings for the current year, extrapolated for a 10 year period, assuming an annual decrease in revenues of 1.0% per annum (31 December 2017: decrease of 1.0% per annum). The pre-tax rate used to discount the forecast cash flows was 15.0% (31 December 2017: 14.0%) as the group judges this discount rate appropriately reflects the market in which the CGU operates and, in particular, its small size. The group has therefore recognised an impairment charge of £269,000 during the period. This impairment has been included in the Investment Management segment in the segmental analysis (note 3).

## 13 Provisions for liabilities and charges

	Deferred, variable costs to acquire client relationship intangibles £'000	Deferred and contingent consideration in business combinations £'000	Legal and compensation £'000	Property-related £'000	Total £'000
At 1 January 2017	10,212	1,136	598	2,798	14,744
Charged to profit or loss	-	-	93	16,105	16,198
Unused amount credited to profit or loss	-	-	-	-	-
Net charge to profit or loss	-	-	93	16,105	16,198
Other movements	1,597	(13)	-	-	1,584
Utilised/paid during the period	(4,820)	-	(46)	(2,968)	(7,834)
<b>At 30 June 2017 (unaudited)</b>	<b>6,989</b>	<b>1,123</b>	<b>645</b>	<b>15,935</b>	<b>24,692</b>
Charged to profit or loss	-	-	155	429	584
Unused amount credited to profit or loss	-	-	(54)	-	(54)
Net charge to profit or loss	-	-	101	429	530
Other movements	1,146	97	-	-	1,243
Utilised/paid during the period	(63)	-	(69)	(2,621)	(2,753)
<b>At 31 December 2017 (audited)</b>	<b>8,072</b>	<b>1,220</b>	<b>677</b>	<b>13,743</b>	<b>23,712</b>
Adjustment on initial application of IFRS 15 (note 2)	4,075	-	-	-	4,075
<b>At 1 January 2018 (unaudited)</b>	<b>12,147</b>	<b>1,220</b>	<b>677</b>	<b>13,743</b>	<b>27,787</b>
Charged to profit or loss	-	-	143	514	657
Unused amount credited to profit or loss	-	-	(50)	(3,726)	(3,776)
Net credit to profit or loss	-	-	93	(3,212)	(3,119)
Other movements	(1,842)	35	-	-	(1,807)
Utilised/paid during the period	(4,544)	-	(204)	(2,975)	(7,723)
<b>At 30 June 2018 (unaudited)</b>	<b>5,761</b>	<b>1,255</b>	<b>566</b>	<b>7,556</b>	<b>15,138</b>
Payable within 1 year	5,316	-	566	4,257	10,139
Payable after 1 year	445	1,255	-	3,299	4,999
<b>At 30 June 2018 (unaudited)</b>	<b>5,761</b>	<b>1,255</b>	<b>566</b>	<b>7,556</b>	<b>15,138</b>

### Deferred, variable costs to acquire client relationship intangibles

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

## Deferred and contingent consideration in business combinations

Deferred and contingent consideration of £1,255,000 (30 June 2017: £1,123,000; 31 December 2017: £1,220,000) is the present value of amounts payable at the end of 2019 in respect of the acquisition of Vision Independent Financial Planning and Castle Investment Solutions.

## Legal and compensation

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

## Property-related

Property-related provisions of £7,556,000 relate to dilapidation and onerous lease provisions expected to arise on leasehold premises held by the group (30 June 2017: £15,935,000; 31 December 2017: £13,743,000).

On 6 June 2018, the group completed assignment of its leases on surplus property at 1 Curzon Street, which triggered a release of £3,726,000 from the onerous lease provision held over the property. The timing of cash flows from the group relating to monies due under the contract with the assignee are subject to the level of rent paid by the assignee following the rent review due in the third quarter of 2018.

Dilapidation provisions are calculated using a discounted cash flow model. During the six months ended 30 June 2018, dilapidation provisions decreased by £418,000 (30 June 2017: decreased £554,000; 31 December 2017: decreased £533,000). The group recognised an additional £492,000 in relation to amounts due to the assignee of the 1 Curzon Street leases as part of a fit-out contribution included within the contract to assign. The group utilised £889,000 (30 June 2017: £704,000; 31 December 2017: £802,000) of the dilapidations provision held for the property at 1 Curzon Street during the period. The impact of discounting led to a reduction of £21,000 (30 June 2017: additional £150,000; 31 December 2017: additional £82,000) being provided for over the period.

## Amounts payable after one year

Property-related provisions of £3,299,000 are expected to be settled within 18 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held. Provisions for deferred and contingent consideration in business combinations of £1,255,000 are expected to be settled within two years of the balance sheet date. Remaining provisions payable after one year are expected to be settled within three years of the balance sheet date.

## 14 Subordinated loan notes

	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	Audited 31 December 2017 £'000
Subordinated loan notes			
– face value	20,000	20,000	20,000
– carrying value	19,751	19,643	19,695

Subordinated loan notes consist of 10-year Tier 2 notes, which are repayable in August 2025, with a call option in August 2020 and annually thereafter. Interest is payable at a fixed rate of 5.856% until the first call option date and at a fixed margin of 4.375% over six month LIBOR thereafter.

An interest expense of £641,000 (30 June 2017: £637,000; 31 December 2017: £1,276,000) was recognised in the period.

## 15 Long term employee benefits

The group operates two defined benefit pension schemes providing benefits based on pensionable salary for staff employed by the company. For the purposes of calculating the pension benefit obligations, the following assumptions have been used:

	Unaudited 30 June 2018 % p.a.	Unaudited 30 June 2017 % p.a.	Audited 31 December 2017 % p.a.
Rate of increase of pensions in payment:			
– Laurence Keen Scheme	<b>3.50</b>	3.60	3.60
– Rathbone 1987 Scheme	<b>3.20</b>	3.40	3.40
Rate of increase of deferred pensions	<b>3.30</b>	3.50	3.50
Discount rate	<b>2.75</b>	2.75	2.65
Inflation*	<b>3.30</b>	3.50	3.50
Percentage of members transferring out of the schemes per annum	<b>3.00</b>	3.00	3.00
Average age of members at date of transferring out (years)	<b>52.50</b>	52.00	52.50
Average duration of defined benefit obligation (years):			
– Laurence Keen Scheme	<b>16.00</b>	19.00	16.00
– Rathbone 1987 Scheme	<b>20.00</b>	23.00	20.00

\* Inflation assumptions are based on the Retail Prices Index

The assumed life expectations of members retiring aged 65 were:

	Unaudited 30 June 2018		Unaudited 30 June 2017		Audited 31 December 2017	
	Males	Females	Males	Females	Males	Females
Retiring today	<b>23.8</b>	<b>25.7</b>	23.7	25.6	23.7	25.6
Retiring in 20 years	<b>25.5</b>	<b>27.5</b>	25.4	27.4	25.4	27.4

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

	Unaudited 30 June 2018		Unaudited 30 June 2017		Audited 31 December 2017	
	Rathbone 1987 Scheme £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Laurence Keen Scheme £'000
Present value of defined benefit obligations	<b>(143,028)</b>	<b>(12,601)</b>	(165,322)	(12,937)	(151,133)	(12,980)
Fair value of scheme assets	<b>129,663</b>	<b>11,914</b>	146,218	12,023	136,235	12,278
<b>Total deficit</b>	<b>(13,365)</b>	<b>(687)</b>	(19,104)	(914)	(14,898)	(702)

The group made lump sum contributions into its pension schemes totalling £1,738,000 during the period (30 June 2017: £1,750,000; 31 December 2017: £2,838,000).

With effect from 30 June 2017, the link between past service benefit and pensionable salaries was broken for both schemes and the Rathbone 1987 Scheme was closed to future accrual from this date. This resulted in a plan amendment gain of £5,523,000 being recognised in operating income on that date.

## 16 Share capital and share premium

The following movements in share capital occurred during the period:

	Number of shares	Exercise price pence	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2017	50,682,679		2,535	139,991	142,526
Shares issued:					
– to Share Incentive Plan	76,983	1,784.0 – 2,429.0	4	1,475	1,479
– to Save As You Earn scheme	85,838	984.0 – 1,648.0	4	1,243	1,247
– to Employee Benefit Trust	397,761	5.0	19	–	19
<b>At 30 June 2017 (unaudited)</b>	<b>51,243,261</b>		<b>2,562</b>	<b>142,709</b>	<b>145,271</b>
Shares issued:					
– to Share Incentive Plan	9,688	2,351.0 – 2,611.0	–	250	250
– to Save As You Earn scheme	9,203	984.0 – 1,648.0	1	130	131
– to Employee Benefit Trust	39,922	5.0	3	–	3
<b>At 31 December 2017 (audited)</b>	<b>51,302,074</b>		<b>2,566</b>	<b>143,089</b>	<b>145,655</b>
Shares issued:					
– to Share Incentive Plan	<b>58,076</b>	<b>2,436.0 – 2,484.0</b>	<b>3</b>	<b>1,420</b>	<b>1,423</b>
– to Save As You Earn scheme	<b>136,604</b>	<b>1,106.0 – 1,648.0</b>	<b>7</b>	<b>1,863</b>	<b>1,870</b>
– to Employee Benefit Trust	<b>269,372</b>	<b>5.0</b>	<b>12</b>	<b>–</b>	<b>12</b>
– on placing	<b>2,400,000</b>	<b>2,500.0</b>	<b>120</b>	<b>58,189</b>	<b>58,309</b>
<b>At 30 June 2018 (unaudited)</b>	<b>54,166,126</b>		<b>2,708</b>	<b>204,561</b>	<b>207,269</b>

On 18 June 2018, the company issued 2,400,000 shares by way of a placing for cash consideration at £25.00 per share, which raised £58,309,000, net of £1,691,000 placing costs, offset against share premium arising on the issue.

At 30 June 2018, the group held 890,880 own shares (30 June 2017: 672,909; 31 December 2017: 656,693).

## 17 Share-based payments

The group recognised total expenses of £2,803,000 (30 June 2017: £1,765,000; 31 December 2017: £3,871,000) in relation to share-based transactions in the period.

### Executive Incentive Plan

Following approval at the AGM in May 2018, the maximum variable remuneration opportunity under the Executive Incentive Plan scheme increased from 200% to 300% of base salary.

### Staff Equity Plan

During the first half of 2018, the group launched a new remuneration scheme, Staff Equity Plan, for individuals within Rathbone Investment Management and Rathbone Investment Management International. The aim of the scheme is to promote increased equity interest in Rathbone Brothers Plc amongst employees.

Participants are granted awards under the plan in the form of an option with an exercise price of £nil. The option awards are subject to certain service and performance conditions. Following the satisfaction of these performance conditions, the awards will vest (or lapse) and become exercisable on the fifth anniversary of the grant date. The awards will be exercisable from the vesting date until the tenth anniversary of the grant date.

## 18 Financial instruments

### Fair value measurement

The table on the following page analyses the group's 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.

## 18 Financial instruments continued

At 30 June 2018 (unaudited)	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets</b>				
Fair value through profit or loss:				
– equity securities	<b>2,597</b>	–	–	<b>2,597</b>
– money market funds	–	<b>89,085</b>	–	<b>89,085</b>
	<b>2,597</b>	<b>89,085</b>	–	<b>91,682</b>

At 30 June 2017 (unaudited)	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets</b>				
Available for sale securities:				
– equity securities	2,513	–	–	2,513
– money market funds	–	124,287	–	124,287
	2,513	124,287	–	126,800

At 31 December 2017 (audited)	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets</b>				
Available for sale securities:				
– equity securities	2,565	–	–	2,565
– money market funds	–	106,747	–	106,747
	2,565	106,747	–	109,312

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 period.

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

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

- Debt securities that are classified and measured at amortised cost comprise bank and building society certificates of deposit, which have fixed coupons. The fair value of debt securities at 30 June 2018 was £778,634,000 (30 June 2017: £592,696,000; 31 December 2017: £704,002,000) and the carrying value was £775,839,000 (30 June 2017: £590,005,000; 31 December 2017: £701,966,000). As at 30 June 2017 and 31 December 2017, debt securities were classified as held to maturity under IAS 39. Fair value is based on market bid prices and hence would be categorised as level 1 within the fair value hierarchy.
- Subordinated loan notes (note 14) comprise Tier 2 loan notes. The fair value of the loan notes at 30 June 2018 was £20,297,000 (30 June 2017: £20,604,000; 31 December 2017: £20,478,000) and the carrying value was £19,751,000 (30 June 2017: £19,643,000; 31 December 2017: £19,695,000). 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 within the fair value hierarchy.

### Concentration of credit risk

The movement in the allowance for impairment in respect of financial assets during the reporting period was as follows:

	Cash and balances with central banks £'000	Loans and advances to banks £'000	Investment Management loan book £'000	Trust and financial planning debtors £'000	Debt securities £'000	Total £'000
Balance at 1 January 2018 (unaudited)	<b>92</b>	<b>3</b>	<b>1</b>	<b>87</b>	<b>31</b>	<b>214</b>
Amounts written off	–	–	–	(6)	–	(6)
Net remeasurement of loss allowance	<b>27</b>	<b>(1)</b>	<b>(1)</b>	<b>33</b>	<b>2</b>	<b>60</b>
<b>Balance at 30 June 2018 (unaudited)</b>	<b>119</b>	<b>2</b>	<b>–</b>	<b>114</b>	<b>33</b>	<b>268</b>

As at 30 June 2018, the impairment allowance in respect of all financial assets in the table above was measured at an amount equal to 12 month ECLs, apart from trust and financial planning debtors, where the impairment allowance was equal to lifetime ECLs.



## 19 Contingent liabilities and commitments

- (a) Indemnities are provided in the normal course of business to a number of directors and employees who provide tax and trust advisory services in connection with them acting as trustees/directors of client companies and providing other services.
- (b) Capital expenditure authorised and contracted for at 30 June 2018 but not provided for in the condensed consolidated interim financial statements amounted to £963,000 (30 June 2017: £2,074,000; 31 December 2017: £48,000).
- (c) The contractual amounts of the group's commitments to extend credit to its clients are as follows:

	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	Audited 31 December 2017 £'000
Guarantees	<b>117</b>	117	117
Undrawn commitments to lend of 1 year or less	<b>24,970</b>	22,644	20,985
Undrawn commitments to lend of more than 1 year	<b>8,020</b>	5,204	9,040
	<b>33,107</b>	27,965	30,142

The fair value of the guarantees is £nil (30 June 2017 and 31 December 2017: £nil).

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

There is uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures.

The group contributes to the deposit class, investment fund management class and investment intermediation levy classes and accrues levy costs for future levy years when the obligation arises.

## 20 Consolidated interim statement of cash flows

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

	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	Audited 31 December 2017 £'000
Cash and balances at central banks	<b>1,305,002</b>	1,480,932	1,374,002
Loans and advances to banks	<b>127,072</b>	147,714	87,009
Investment securities held at fair value through profit or loss	<b>89,085</b>	124,287	106,747
	<b>1,521,159</b>	1,752,933	1,567,758

Investment securities held at fair value through profit or loss are amounts invested in money market funds, which are realisable on demand.

Cash flows arising from issue of ordinary shares comprise:

	Unaudited Six months to 30 June 2018 £'000	Unaudited Six months to 30 June 2017 £'000	Audited Year to 31 December 2017 £'000
Share capital issued (note 16)	<b>142</b>	27	31
Share premium on shares issued (note 16)	<b>61,472</b>	2,718	3,098
Shares issued in relation to share-based schemes for which no cash consideration was received	<b>(2,225)</b>	(437)	(441)
	<b>59,389</b>	2,308	2,688

## 21 Related party transactions

The key management personnel of the group 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.

Dividends totalling £214,000 were paid in the period (six months ended 30 June 2017: £204,000; year ended 31 December 2017: £408,000) in respect of ordinary shares held by key management personnel.

As at 30 June 2018, the group had provided interest-free season ticket loans of £4,000 (30 June 2017: £4,000; 31 December 2017: £6,000) to key management personnel.

## 21 Related party transactions continued

At 30 June 2018, key management personnel and their close family members had gross outstanding deposits of £3,340,000 (30 June 2017: £4,252,000; 31 December 2017: £4,059,000) and gross outstanding loans of £735,000 (30 June 2017: £723,000; 31 December 2017: £728,000), which were made on normal business terms. A number of the company's directors 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.

One group subsidiary, Rathbone Unit Trust Management, has authority to manage the investments within a number of unit trusts. Another group company, Rathbone Investment Management International, acted as investment manager for a protected cell company offering unitised private client portfolio services. During the first half of 2018, the group managed 25 unit trusts, Sociétés d'investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (six months ended 30 June 2017: 25 collectives; year ended 31 December 2017: 25 collectives).

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:

	Unaudited Six months to 30 June 2018 £'000	Unaudited Six months to 30 June 2017 £'000	Audited Year to 31 December 2017 £'000
Total management fees	<b>20,000</b>	16,592	35,525

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

	Unaudited Six months to 30 June 2018 £'000	Unaudited Six months to 30 June 2017 £'000	Audited Year to 31 December 2017 £'000
Management fees owed to the group	<b>3,456</b>	2,931	3,266
Holdings in unit trusts (note 18)	<b>2,597</b>	2,513	2,565
	<b>6,053</b>	5,444	5,831

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' in the consolidated interim balance sheet. The maximum exposure to loss is limited to the carrying amount on the balance sheet as disclosed above.

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

## 22 Interest in unconsolidated structured entities

As described in note 21, at 30 June 2018, the group owned units in collectives managed by Rathbone Unit Trust Management with a value of £2,597,000 (30 June 2017: £2,513,000; 31 December 2017: £2,565,000), representing 0.04% (30 June 2017: 0.05%; 31 December 2017: 0.05%) of the total value of the collectives managed by the group. These assets are held to hedge the group's exposure to deferred remuneration schemes for employees of Unit Trusts.

The group's primary risk associated with its interest in the unit trusts is from changes in fair value of its holdings in the funds.

The group is not judged to control, and therefore does not consolidate, the collectives. Although the fund trustees have limited rights to remove Rathbone Unit Trust Management as manager, the group is exposed to very low variability of returns from its management and share of ownership of the funds and is therefore judged to act as an agent rather than having control under IFRS 10.

## 23 Events after the balance sheet date

An interim dividend of 24.0p per share was declared on 24 July 2018 (see note 8).

There have been no other material events occurring between the balance sheet date and 24 July 2018.

## Regulatory capital

The group is classified as a banking group under the Capital Requirements Directive (CRD) and is therefore required to operate within the restrictions on capital resources and banking exposures prescribed by the Capital Requirements Regulation, as applied by the Prudential Regulation Authority (PRA).

The group has chosen not to adopt the IFRS 9 transitional arrangements, as the impact of IFRS 9 on the group's regulatory capital has been minimal.

### Regulatory own funds

The group's regulatory own funds (excluding profits for the six months ended 30 June, which have not yet been independently verified, but including independently verified profits to 31 December) are shown in the table below:

	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	Unaudited 31 December 2017 £'000
Share capital and share premium	<b>207,269</b>	145,271	145,655
Reserves	<b>222,237</b>	188,586	222,487
Less:			
– own shares	<b>(5,484)</b>	(5,344)	(4,864)
– intangible assets (net of deferred tax)	<b>(162,501)</b>	(162,589)	(161,286)
Total Common Equity Tier 1 capital	<b>261,521</b>	165,924	201,992
Tier 2 capital	<b>15,517</b>	16,498	14,846
<b>Total own funds</b>	<b>277,038</b>	182,422	216,838

### Own funds requirements

The group is required to hold capital to cover a range of own funds requirements, classified as Pillar 1 and Pillar 2.

#### Pillar 1 - minimum requirement for capital

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

At 30 June 2018, the group's risk-weighted assets were £992,388,000 (30 June 2017: £911,163,000; 31 December 2017: £977,250,000).

#### Pillar 2 - supervisory review process

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

The Pillar 2A own funds requirement is set by the PRA to reflect 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.

##### Interest rate risk in the banking book

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

##### Concentration risk

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

The group is also required to maintain a number of Pillar 2B regulatory capital buffers.

#### Capital conservation buffer (CCB)

The CCB is a general buffer of 2.5% of risk-weighted assets designed to provide for losses in the event of a stress and is being phased in from 1 January 2016 to 1 January 2019. As at 30 June 2018, the buffer rate was 1.875% of risk-weighted assets and it will finally increase to 2.5% of risk-weighted assets from 1 January 2019. The CCB must be met with Common Equity Tier 1 capital.

#### Countercyclical capital buffer (CCyB)

The CCyB is time-varying and 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 individual countries where the group has credit exposures. The buffer rate for the United Kingdom increased to 0.5% with effect from 27 June 2018. However, different rates for other countries, where the group has small relevant credit exposures, result in an overall rate of 0.42% of risk-weighted assets for the group as at 30 June 2018. The FPC has announced that the United Kingdom rate will increase to 1.0%, with binding effect from 28 November 2018. The CCyB must be met with Common Equity Tier 1 capital.

#### PRA buffer

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

The group's own funds requirements were as follows:

	Unaudited 30 June 2018 £'000	Unaudited 30 June 2017 £'000	Unaudited 31 December 2017 £'000
Own funds requirement for credit risk	<b>41,021</b>	38,729	39,457
Own funds requirement for market risk	-	-	353
Own funds requirement for operational risk	<b>38,370</b>	34,164	38,370
Pillar 1 own funds requirement	<b>79,391</b>	72,893	78,180
Pillar 2A own funds requirement	<b>47,241</b>	28,105	46,123
<b>Total Pillar 1 and 2A own funds requirement</b>	<b>126,632</b>	100,998	124,303
CRD IV buffers:			
– capital conservation buffer (CCB)	<b>18,607</b>	11,390	18,323
– countercyclical capital buffer (CCyB)	<b>4,168</b>	182	98
<b>Total Pillar 1 and 2A own funds requirement and CRD IV buffers</b>	<b>149,407</b>	112,570	142,724

# Statement of directors' responsibilities in respect of the interim statement

## Confirmations by the board

We confirm to the best of our knowledge:

- the condensed set of financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
- the interim management report includes a fair view of the information required by:
  - (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

## Going concern basis of preparation

Details of the group's results, cash flows and resources, together with an update on the risks it faces and other factors likely to affect its future development, performance and position are set out in this interim management report.

Group companies are regulated by the PRA and FCA and perform annual capital adequacy assessments, which include the modelling of certain extreme stress scenarios. The group publishes Pillar 3 disclosures annually on its website, which provide further detail about its regulatory capital resources and requirements. During the first half of 2018, and as at 30 June 2018, the group was primarily equity-financed, with a small amount of gearing in the form of the Tier 2 debt.

In 2018, the group has continued to grow client funds under management, both organically and through acquisition, and the group remains profitable. The directors believe that the company remains well-placed to manage its business risks successfully, despite an uncertain economic and political backdrop.

As we believe that the group has, and is forecast to continue to have, sufficient financial and regulatory resources we continue to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial statements. In forming our view, we have considered the company's prospects for a period exceeding 12 months from the date the condensed consolidated interim financial statements are approved.

By order of the board

**Philip Howell**  
Chief Executive

24 July 2018

# Independent review report to Rathbone Brothers Plc

## Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity, consolidated interim balance sheet, consolidated interim statement of cash flows and the related explanatory notes on pages 6 to 28.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

## Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

## The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

### Nicholas Edmonds

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square, London E14 5GL

24 July 2018



Rathbones  
Look forward

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