Funds under management up 14.3% to £39.1 billion

This is a preliminary statement of annual results published in accordance with FCA Listing Rule 9.7A.

It covers the year ended 31 December 2017.

Mark Nicholls, Chairman of Rathbone Brothers Plc, said:

"UK and global investment markets performed well in 2017, with some indices reaching record levels towards the end of the year. This outcome has been positive for both Rathbones and our clients, with our funds under management reaching a record £39.1 billion, up 14.3% in the year.

"Notwithstanding some caution, which naturally emerges at a time of high investment markets and political uncertainty, we enter 2018 well positioned to provide long-term value for shareholders."

Highlights:

- Underlying profit before tax increased 16.8% from £74.9 million to £87.5 million for the year ended 31 December 2017. Underlying profit margin remained strong at 30.6% compared to 29.8% in 2016. Underlying earnings per share increased 13.7% to 138.8p (2016: 122.1p).
- Profit before tax increased 17.6% from £50.1 million to £58.9 million. Basic earnings per share increased 17.5% to 92.7p (2016: 78.9p).
- The board recommends a final dividend of 39p for 2017 (2016: 36p), making a total of 61p for the year (2016: 57p), an increase of 7.0% on 2016.
- Total funds under management were £39.1 billion at 31 December 2017, up 14.3% from £34.2 billion at 31 December 2016. The FTSE 100 Index increased by 7.6% and the MSCI WMA Private Investor Balanced Index increased by 7.2% over the same period.
- The total net annual growth rate of funds under management for Investment Management was 3.9% (2016: 4.5%). This comprised £0.9 billion of net organic growth (2016: £0.8 billion) and £0.3 billion of acquired inflows (2016: £0.4 billion). The underlying rate of net organic growth was 3.0% in 2017 (2016: 2.9%).
- Underlying operating income in Investment Management of £254.6 million for the year ended 31 December 2017 (2016: £226.3 million) was up 12.5%, driven by higher investment markets and continued organic and acquired growth in all business areas. The average FTSE 100 Index was 7426 on quarterly billing dates in 2017, compared to 6659 in 2016, an increase of 11.5%.
- Funds under management in Unit Trusts were £5.3 billion at 31 December 2017 (31 December 2016: £4.0 billion) and net inflows totalled £883 million in the same period (2016: £554 million). Underlying operating income in Unit Trusts was £31.4 million in the year ended 31 December 2017, an increase of 25.6% from £25.0 million in 2016.
- Underlying operating expenses of £198.5 million (2016: £176.4 million) increased 12.5% year-on-year largely due to continuing investment in strategic initiatives and underlying growth in the business.

Ends

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Rathbone Brothers Plc

Rathbone Brothers Plc ("Rathbones"), through its subsidiaries, is a leading provider of high-quality, personalised investment and wealth management services for private clients, charities and trustees. Our services include discretionary investment management, unit trusts, banking and loan services, financial planning, unitised portfolio services, and UK trust, legal, estate and tax advice.

Rathbones has over 1,100 staff in 15 UK locations and Jersey; its headquarters is 8 Finsbury Circus, London.

rathbones.com

Chairman's statement

A strong 2017

2017 was a good year for Rathbones and we produced some robust financial results. The executive team responded well to developments in a rapidly changing wealth management market, and our investment managers achieved good risk-adjusted returns for our clients in a time of great uncertainty and persistently low interest rates.

UK and global investment markets performed well in 2017, with some indices reaching record levels towards the end of the year. This outcome has been positive for both Rathbones and our clients, with the WMA Balanced Index up 7.2% in the year and our funds under management reaching £39.1 billion, up 14.3% in the year.

Profit before tax for 2017 increased 17.6% to £58.9 million after incurring the costs associated with the relocation of our London office and in pursuing strategic opportunities. These costs were partially offset by a plan amendment gain arising from the closure of our defined benefit pension schemes. Accordingly, basic earnings per share of 92.7p increased 17.5% from the 78.9p reported in last year.

Underlying profit before tax was £87.5 million for the year ended 31 December 2017, up 16.8% from the previous year, and we have continued to balance our need to continue strategic expenditure with maintaining good profitability, reporting an underlying profit margin of 30.6% (2016: 29.8%) for the year. Underlying earnings per share of 138.8p for 2017, increased 13.7% from 122.1p last year.

In line with our progressive dividend policy, the board is recommending a final dividend of 39p per share. This brings the total dividend for the year to 61p per share, an increase of 7.0% over last year.

We continually monitor opportunities to grow the business through smaller acquisitions, but during the year we discussed with an industry peer, Smith & Williamson, the benefits of combining our businesses. The benefits to both parties and our respective clients could have been considerable but, following extensive discussions, we were unable to conclude a transaction that was in the best interests of both parties. Nevertheless, I believe that our measured approach to this opportunity served us well. We will continue to apply this discipline when we pursue other opportunities.

Continued momentum

In 2014 we set out a five-year strategy which had the ambition to reach £40 billion of funds under management by the end of 2018. Accepting that investment markets have been favourable, we are now well within sight of that goal with many of our strategic initiatives continuing to gain momentum.

Accordingly, over the next few months, the board and executive team will work to refresh our strategy to ensure our core business remains robust and that we can benefit from the changing landscape of our industry. I look forward to sharing the outcome of these discussions with our stakeholders at the appropriate time. We remain committed to ensuring that Rathbones remains well-positioned for the future.

Governance, culture and the board

Last year, I wrote that one of my priorities was to ensure board oversight of the firm's culture and its development. This is now a specific responsibility of the chairman. Rathbones' culture (professionalism, putting clients first, a collegiate approach and integrity) has long been a competitive advantage. Despite growth, regulation and the pace of change in our industry, we have endeavoured to protect our culture and this remains a board priority.

As part of this initiative both I and my non-executive director colleagues actively seek opportunities for direct engagement with employees, both formal and informal, across the firm. From our engagement this year, we have witnessed the challenging effects that an increased workload, driven by internal and external change, has placed on our teams. On the other hand we have been reassured that our strong culture remains at the heart of the business. Preserving this culture is clearly fundamental to achieving the best results for clients and shareholders over the long term.

As part of our normal succession planning, the board continues to monitor our existing capabilities and assess what new skills are necessary to develop both the board and the wider business over time, taking into account the existing balance of knowledge, experience and diversity. After a rigorous recruitment process we were delighted to welcome Jim Pettigrew to the board in March 2017. Jim has extensive experience in financial services and was appointed senior independent director in August 2017 following the retirement of David Harrel.

In late 2017 we completed an externally-facilitated board effectiveness review which has confirmed that the board continues to operate well. There are always areas to improve however and, in particular, we will ensure that good communication and interaction between the board and the business remains a priority.

Responding to risks and regulation

We continue to enhance our risk management processes, and this year have paid particular attention to identifying and monitoring emerging risks such as cybercrime, money laundering and data theft. We remain vigilant to the financial risks associated with sub-letting our existing space in Curzon Street and these risks are also reviewed at every board meeting. We also took action to reduce the risks associated with our defined benefit pension schemes. We believe that the other significant risks to our business are operational risks, which are increased by growth, and regulatory risks, which are increased by continual changes to regulations in our sector.

The past year has been a very demanding one from a regulatory perspective as we prepared for the changes brought about by MiFID II, the General Data Protection Regulation, the FCA Asset Management Market Report and PRIIPs. Maintaining our regulatory standards has always been a high priority for our senior management and we will continue to monitor the regulatory risks that arise from the changes to guidelines and standards in our sector.

Engaging with shareholders

During the year, we have had the opportunity to engage with shareholders through various channels including conferences, company-hosted events, group meetings and one-on-one discussions. We are fortunate to have a number of longstanding, committed institutional shareholders and will continue to maintain a regular and constructive dialogue with them to gather feedback on our progress.

In early 2018, we consulted with them on changes to our remuneration policy. As it has been three years since our last policy was approved, a revised remuneration policy will be laid before shareholders for approval at the Annual General Meeting in May 2018. Working with the company's advisers, the remuneration committee has reassessed our policy in the context of a changing external environment and the firm's own future aspirations. Although we have maintained the principal features of our existing policy, some changes have been proposed to align the interests of executives and investors more closely. These changes follow a number of consultation meetings with shareholders and governing bodies.

Listening to our employees

As a service business, our people are our greatest asset and we are committed to retaining the many high-calibre individuals we employ across the firm and creating a stimulating and supportive environment for them. I listen carefully to the views of my colleagues and I recognise that this year has been a challenging one for employees, given the pace and nature of change. I am very grateful for their continued perseverance and dedication.

Outlook

The UK wealth management industry continues to evolve, driven by client needs, regulation, demographics, technological innovation and a changing competitive landscape. Rathbones, as a leading UK discretionary wealth manager, remains well placed to respond to and capitalise on these evolving trends.

We remain committed to growing the business both organically, via disciplined investment, and inorganically via acquisitions that not only fit our strategic and financial criteria and but also share our culture and values.

Notwithstanding some caution, which naturally emerges at a time of high investment markets and political uncertainty, we enter 2018 well positioned to provide long-term value for shareholders.

Mark Nicholls
Chairman

21 February 2018

The wealth management sector remains robust

The wealth management industry continues to be an exciting and rapidly changing place to do business. In 2017 the industry has not only had to navigate a particularly uncertain political climate, but has also had to respond to a considerable amount of new regulation.

Importantly, many positive drivers for long-term private wealth accumulation are still in place. The challenge the current climate brings is to secure the scale economies and operational efficiencies necessary to respond positively to demographic changes and technological advances, whilst reacting to a climate of increasing price pressure.

In this respect, Rathbones continues to be well positioned in the industry with our own funds under management reaching £39.1 billion at 31 December 2017, up 14.3% from £34.2 billion at the end of 2016. Total funds under management in our Investment Management business at 31 December 2017 were £33.8 billion, up 11.9% from £30.2 billion in 2016, whilst our Unit Trust business reached a milestone of £5.3 billion, up 32.5% from last year.

Strong financial performance underpinned by a 30% operating margin

Despite investing in a number of areas across the business during the year, we maintained a leading operating margin of 30.6% (2016: 29.8%) through a combination of relatively supportive investment markets and continued net funds growth and cost discipline. Underlying profit before tax totalled £87.5 million (2016: £74.9 million), generating an underlying earnings per share of 138.8p, an increase of 13.7% from 122.1p in 2016.

In 2017, the group added £4.8 billion gross funds under management organically, split between £3.1 billion in our Investment Management business and £1.7 billion in our Unit Trusts business (2016: £2.3 billion and £1.3 billion respectively). Outflows from intergenerational wealth transfer, property purchases and other uses of funds to support lifestyle continue unabated in this low interest rate environment. Net organic growth in this business was 3.0% (2016: 2.9%), which represents a satisfactory result in an investment climate that was largely directionless until the end of the year. Net flows into our Unit Trusts business were very strong however, totalling £883 million in the year (2016: £554 million) and helping its total funds under management to reach a record £5.3 billion (2016: £4.0 billion) at 31 December 2017.

Profit before tax for the year of £58.9 million was 17.6% higher than the £50.1 million in 2016 and reflects the impact of a number of non-underlying items.

Our balance sheet remains stable with a consolidated Common Equity Tier 1 ratio at 31 December 2017 of 20.7% compared with 17.7% at 31 December 2016. Our consolidated leverage ratio at 31 December 2017 was 7.8% compared with 6.6% at 31 December 2016. We remain a capital-efficient business, generating an underlying return on capital employed of 19.5% for the year compared to 19.3% a year ago.

The journey to £40 billion has significantly improved our capabilities as a firm

Four years ago, I shared an ambition for the firm to reach £40 billion of funds under management by the end of 2018, and I am encouraged that this goal is within our reach. Since 2014, we have delivered a significantly improved investment platform to support our investment teams, built new distribution channels addressing both IFA networks and professional intermediaries, acquired Vision Independent Financial Planning, expanded our research and specialist investment capability, simplified our pricing structures and materially grown our Unit Trusts business. We have also delivered learning and development programmes to employees, strengthened our brand profile, improved our website and broadened our marketing capability.

Alongside this demanding programme, we have taken advantage of a number of opportunities to deliver inorganic growth through team hiring and bolt-on acquisitions. Our culture of 'professional autonomy with accountability' on which our investment managers thrive, remains very much at the heart of our business, but does place more demands on our ability to manage risk. Hand in hand with this considerable level of activity, we have ensured that we continue to operate a risk and control framework that allows us to adhere to our core philosophies of delivering an investment-led, highly personal, whole-of-market investment service to our clients.

Investing in the future

There are, of course, areas of the business that we must continue to develop to adapt to the changing needs of our clients. This year we have been reviewing the processes we use to maintain and manage information about our clients, and have made a number of enhancements. In 2017 we embedded a new way of capturing and evaluating our clients' attitude to investment risk and significantly increased the usage of asset allocation tools across the firm, with over 97% of discretionary funds now linked to these tools.

In 2018 we will continue to keep abreast of evolving client suitability standards. We will also be looking to improve our account opening processes, making use of a material upgrade to our client relationship management systems and providing more administrative support to ensure that investment teams can continue to focus on serving our clients well.

The output from our research team has increased considerably over the last two years, as has access to this output, through the introduction of a research hub which disseminates information to our growing community of investment managers. In 2018 we will continue to ensure that we attract the right level of investment skills to support and develop our investment process, but, just as importantly, ensure that the amount of external research we procure is right for us. MiFID II has made some significant changes to the way in which external research is priced, delivered and administered, and we will work hard to keep abreast of developments to secure value for money.

Building our presence in the intermediary market has remained a key priority, so a May 2017 report by Defaqto which confirmed that the use of Rathbones as a discretionary fund management provider to advisers had more than doubled in the last year was a good outcome. Vision Independent Financial Planning made strong progress during the year, growing funds under management to £1.4 billion (2016: £1.0 billion) and continuing to attract quality advisers. In addition, our specialist intermediary team continues to focus on a number of important strategic partnerships, and is now well established. We expect flows to improve from the £265 million introduced in 2017 to c. £350 million as the proposition continues to gain momentum.

This year we deliberately invested in establishing the right infrastructure to support our internal financial planning teams and further develop the proposition. We are now able to expand its footprint across more of our regional offices over the next year and expect to increase the number of professional staff in 2018. In total, we expect net costs to increase by up to £1.5 million as a result. The Rathbone Private Office became fully operational during 2017 with a marketing programme positioning the firm as a credible alternative for larger and more complex clients, and raising its profile within the intermediary community.

We remain mindful that current employee ownership in the business is culturally important and over recent years there has been a decline, primarily as a result of retirement. From 2018, we will seek to correct this by creating opportunities for more employees to build a larger element of equity ownership.

Finally, investment markets inevitably present an element of cyclicality to earnings and stock performance and we will continue to monitor this as we review and update our goals for the next five years.

Regulation and infrastructure continue to evolve

In 2017, we and the industry have had the task of implementing the significant regulatory changes that arise from the introduction of MiFID II and the General Data Protection Regulation in particular. Whilst MiFID II has been successfully delivered on time and work on GDPR is advanced, these new regimes will continue to require some significant changes to our core processes and systems, with costs continuing at similar levels into 2018.

MiFID II in particular will have an impact on our Unit Trusts business, which will bear the full cost of external research in 2018. Research costs borne by the funds in 2017 were £0.8 million. This is in addition to the expected ban on 'risk-free' box dealing profits (2017: 3.1 million) following the FCA's Asset Management Market Study. We will look to offset these impacts in profit terms by continuing to grow the business and build on the momentum the team has achieved.

Technology continues to be a significant entrant in our sector and I believe it will continue to play a disruptive role in the future if not wholly embraced. Whilst we are committed to our highly personal approach to providing investment and advisory services, we will continue to invest to capture the opportunities that these new technologies can offer to improve our services and operational efficiency while increasing the capacity of our investment teams.

In 2017, we reorganised and upgraded the skills of our IT team, which over the medium term will improve our data management capabilities, enhance our client communications and introduce additional security measures to combat the ever growing cyber threat. We expect that this expansion of our IT capability, together with more general cost inflation, will add approximately £2.5 million to our running costs.

Outlook

This year has presented many challenges and opportunities and I fully expect 2018 to do so in equal measure. Brexit continues to be a regular discussion topic within the investment community, but as a predominantly UK-based firm our own view is largely focused on the wider economic environment and any impact it may have on the investments we make for our clients.

I would like to take this opportunity to praise the efforts of our employees in this eventful last year. Notwithstanding the demands of our own change programme and a complicated market environment, they have kept the needs of our clients at the forefront of what we do and concentrated on providing an exemplary service.

We enter 2018 in a good position, with industry-leading operating margins and a strong balance sheet. We will continue to look for accretive acquisition opportunities and to invest in our future with discipline.

Philip Howell
Chief Executive

21 February 2018

Paul Stockton
Finance Director

Table 1. Group's overall performance

	2017 £m (unless stated)	2016 £m (unless stated)
Underlying operating income	**286.0**	251.3
Underlying operating expenses	**(198.5)**	(176.4)
Underlying profit before tax[1]	**87.5**	74.9
Underlying operating margin[2]	**30.6%**	29.8%
Profit before tax	**58.9**	50.1
Effective tax rate	**20.5%**	23.8%
Taxation	**(12.1)**	(11.9)
Profit after tax	**46.8**	38.2
Underlying earnings per share	**138.8p**	122.1p
Earnings per share	**92.7p**	78.9p
Dividend per share[3]	**61.0p**	57.0p
Return on capital employed[4]	**19.5%**	19.3%

1. A reconciliation between underlying profit before tax and profit before tax is shown in table 2
2. Underlying profit before tax as a % of underlying operating income
3. The total interim and final dividend proposed for the financial year
4. Underlying profit after tax as a % of average equity at each quarter end

Underlying operating income

Underlying operating income grew 13.8% in 2017, driven by higher investment markets and continued organic and acquired growth in all business areas.

Fee income of £217.5 million in 2017 increased 17.7% compared to £184.8 million in 2016, reflecting positive markets and growth in organic and acquired new business over the period. Fee income represented 76.0% of total underlying operating income in the year ended 31 December 2017 (2016: 73.5%), as our fee only tariff becomes more widely adopted, helping to support our move to higher quality fee-based income.

Net commission income of £38.7 million was broadly consistent with 2016, as the impact of higher trading volumes was offset by the greater number of accounts now operating on a fee only tariff.

Net interest income was unchanged at £11.6 million, as higher liquidity offset the impact of a lower interest rate environment for much of 2017.

Underlying operating expenses

Underlying operating expenses increased by 12.5%, largely due to continuing investment in strategic initiatives and underlying growth in the business.

In line with our strategy, planned additions to headcount increased fixed staff costs by 10.0% to £87.8 million, with average headcount up 7.6% to 1,147.

Total variable staff costs increased by 18.4% to £53.3 million, principally driven by growth in profits and funds under management as well as the introduction of additional performance-based incentives for investment managers during the year. Variable staff costs in 2017 represented 18.6% of underlying operating income (2016: 17.9%) and 37.9% of underlying profit before variable staff costs and tax (2016: 37.5%).

Underlying operating expenses also included £5.1 million (2016: £4.0 million) for awards payable to new investment managers for the introduction of new clients where those managers have been in situ for more than 12 months (see note 2.1).

The adoption of IFRS 15 in 2018 requires us to change the accounting policy for these awards, which will result in more of these costs being capitalised and amortised over the life of the client relationship. The adoption of IFRS 9 is not expected to have a material impact on our financial performance. Further details can be found in note 1.

Outlook

Profitability

Staff costs in 2018 will reflect the full year impact of hiring activity in 2017 in addition to salary inflation of around 3.5%.

During 2018 we plan to continue the IT change programme started in 2017. This is expected to add approximately £2.5 million to our cost base in 2018. We also plan to expand the footprint of our financial planning service across more regional offices; which is expected to add up to £1.5 million to the cost base of this business, net of growth in associated revenues.

In addition, from 2018, the unit trusts business will no longer charge research costs to the funds and it is expected that manager's box dealing profits will no longer be retained. In 2017, research costs of £0.8 million were incurred by the funds and managers' box dealing profits totalled £3.1 million.

Capital expenditure

Overall, capital expenditure of £11.3 million in 2017 was down £3.8 million compared to 2016, a fall of 25.2%. As planned, expenditure on software increased by £4.2 million as we upgraded our client relationship management systems and embarked on an IT change programme. These activities are expected to continue in to 2018 with a similar level of capital expenditure.

Premises related capital expenditure fell by £7.8 million, primarily due to the fit out of our new London Head Office, which was largely completed in 2016.

Group underlying profit before tax/operating margin

Underlying profit before tax and earnings per share are considered by the board to be a better reflection of true business performance than looking at our results on a statutory basis only. These measures are widely used by research analysts covering the group. Underlying results exclude income and expenditure falling into the four categories explained below.

Underlying profit before tax grew by 16.8% to £87.5 million in 2017. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to underlying operating income, was 30.6% for the year; in line with our target of 30% over the cycle (2016: 29.8%). Profit before tax increased by 17.6% to £58.9 million for the year.

Table 2. Reconciliation of underlying profit before tax to profit before tax

	2017 £m	2016 £m
Underlying profit before tax	**87.5**	74.9
Gain on plan amendment of defined benefit pension schemes	**5.5**	–
Charges in relation to client relationships and goodwill	**(11.7)**	(11.8)
Acquisition-related costs	**(6.2)**	(6.0)
Head office relocation costs	**(16.2)**	(7.0)
Profit before tax	**58.9**	50.1

Gain on plan amendment of defined benefit pension schemes

With effect from 30 June 2017, we closed the defined benefit pension schemes, ceasing all future accrual and breaking the link to salaries. These changes resulted in a plan amendment gain of £5.5 million, which was recognised in operating income. This gain is a significant one-off item which does not relate to the trading performance of the business and it has therefore been excluded from underlying results.

Charges in relation to client relationships and goodwill

Client relationship intangible assets are created when we acquire a business or a team of investment managers. The charges associated with these assets represent a significant non-cash item and they have, therefore, been excluded from underlying profit, which represents largely cash-based earnings more directly relating to the reporting period. Charges for amortisation of client relationship intangibles in the year ended 31 December 2017 were £11.7 million (2016: £11.8 million), reflecting historic acquisitions.

Acquisition-related costs

Acquisition-related costs are significant costs which arise from strategic investments to grow the business. They primarily relate to corporate actions rather than trading performance and are therefore excluded from underlying results.

As announced on 31 August 2017, we incurred professional services costs of £4.9 million in relation to the merger discussions with Smith & Williamson.

Costs of £1.3 million (2016: £6.0 million) were incurred in relation to the acquisitions of Vision Independent Financial Planning and Castle Investment Solutions, which were completed on 31 December 2015. These amounts include the cost of payments to vendors of the business who remain in employment with the group, as required by accounting standards. Further costs totalling £3.6 million will be charged to the income statement on a straight line basis over the deferral period ending in 2019.

Head office relocation costs

During February 2017, we moved our London head office to the new premises following a nine-month fit out period. Charges incurred in relation to the double running of both London premises and the relocation amounted to £16.2 million in 2017 (2016: £7.0 million).

Following the vacation of 1 Curzon Street, a provision has been recognised for the discounted value of the cost of the surplus property until the end of the existing lease, net of any expected rental income from sub-letting the space. As a result, net charges totalling £14.1 million were recognised in the income statement during 2017 in relation to the onerous lease provision.

Charges of £2.1 million were also incurred during the year for professional fees, accelerated depreciation and double running costs (2016: £7.0 million). These costs represent an investment to expand our operating capacity in a key location and are not expected to recur in the short to medium term; they have therefore been excluded from underlying results.

Taxation

The corporation tax charge for 2017 was £12.1 million (2016: £11.9 million) and represents an effective tax rate of 20.5% (2016: 23.8%). A full reconciliation of the income tax expense is provided in note 4.

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

Basic earnings per share

Basic earnings per share for the year ended 31 December 2017 were 92.7p compared to 78.9p in 2016. This reflects the full impact of non-underlying income and charges and the issue of 0.6 million shares to satisfy share based remuneration scheme awards. On an underlying basis, earnings per share increased by 13.7% to 138.8p in 2017 (see note 7).

Dividends

In determining the level of any proposed dividend, the board has regard to current and forecast financial performance. Any proposal to pay a dividend is subject to compliance with the Companies Act, which requires that the company must have sufficient distributable reserves from which to pay the dividend. The company's distributable reserves are primarily dependent on:

- compliance with regulatory capital requirements for the minimum level of own funds;
- the level of profits earned by the company, including distributions received from trading subsidiaries (some of which are subject to minimum regulatory capital requirements themselves);
- actuarial changes in the value of the pension schemes that are recognised in the company's other comprehensive income, net of deferred tax.

At 31 December 2017 the company's distributable reserves were £63.9 million (2016: £42.8 million).

In light of the results for the year, the board has proposed a final dividend for 2017 of 39p. This results in a full year dividend of 61p, an increase of 4p on 2016 (7.0%). The proposed full year dividend is covered 1.5 times by basic earnings and 2.3 times by underlying earnings.

Return on capital employed

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

Consideration of the return on capital is a key consideration of all investment decisions, particularly in relation to acquired growth.

In 2017, ROCE was 19.5% (2016: 19.3%).

Segmental review

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

Investment Management

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

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

Table 3. Investment Management – key performance indicators

	2017	2016
Funds under management at 31 December[1]	**£33.8bn**	£30.2bn
Underlying rate of net organic growth in Investment Management funds under management[1]	**3.0%**	2.9%
Underlying rate of total net growth in Investment Management funds under management[1]	**3.9%**	4.5%
Average net operating basis point return[2]	**72.7 bps**	74.2 bps
Number of Investment Management clients	**50,000**	48,000
Number of investment managers	**277**	273

1. See table 4
2. See table 7

During 2017, Investment Management has continued to attract new clients both organically and through acquisitions. The total number of clients (or groups of closely related clients) increased from 48,000 in 2016 to approximately 50,000 during the year. During 2017, the total number of investment managers increased to 277 at 31 December 2017 from 273 at the end of 2016.

Funds under management

Investment Management funds under management increased by 11.9% to £33.8 billion at 31 December 2017 from £30.2 billion at the start of the year. This increase is analysed in table 4.

Table 4. Investment Management – funds under management

	2017 £bn	2016 £bn
As at 1 January	**30.2**	26.1
Inflows	**3.4**	2.7
– organic[1]	**3.1**	2.3
– acquired[2]	**0.3**	0.4
Outflows[1]	**(2.2)**	(1.5)
Market adjustment[3]	**2.4**	2.9
As at 31 December	**33.8**	30.2
Net organic new business[4]	**0.9**	0.8
Underlying rate of net organic growth[5]	**3.0%**	2.9%
Underlying rate of total net growth[6]	**3.9%**	4.5%

1. Value at the date of transfer in/(out)
2. Value at 31 December
3. Represents the impact of market movements and investment performance
4. Organic inflows less outflows
5. Net organic new business as a % of opening funds under management
6. Net organic new business and acquired inflows as a % of opening funds under management

Net organic growth in our investment management business was 3.0% (2016: 2.9%). This was below the 5% target we have set for ourselves, in large part due to an investment climate that was largely directionless until the end of the year. We saw outflows of approximately 7% of funds under management, as clients continued to transfer wealth to younger generations, purchase property and use capital to support income during the year.

Charity funds under management continued to grow strongly and reached £4.7 billion at 31 December 2017, up 14.6% from £4.1 billion at the start of the year.

We also retained our strategic focus on intermediaries during the year. Funds under management in accounts linked to independent financial advisers and provider panel relationships increased by £1.0 billion during 2017, ending the year at £7.7 billion.

In total, net organic and acquired growth added £1.2 billion to Investment Management funds under management in 2017 (2016: £1.2 billion), representing an underlying rate of total net growth of 3.9% (2016: 4.5%).

As at 31 December 2017, Vision advised on client assets of £1.4 billion, up 35.9% from 2016.

Average investment returns across all Investment Management clients were positive and outperformed the MSCI WMA Balanced index by 1.8%. This outperformance was generated across both UK and Overseas equities as the global markets rallied on Trump's potential fiscal stimulus, stronger European economic data and the dollar trending lower throughout the year. Our overweight position in UK Equities generated the most outperformance for 2017. Overall performance against other competitor indices, such as the Private Client Indices published by ARC, was robust.

Financial performance

Table 5. Investment Management – financial performance

	2017 £m	2016 £m
Net investment management fee income[1]	**189.5**	163.3
Net commission income	**38.7**	38.9
Net interest income[2]	**11.6**	11.6
Fees from advisory services[3] and other income	**14.8**	12.5
Underlying operating income	**254.6**	226.3
Underlying operating expenses[4]	**(177.8)**	(160.1)
Underlying profit before tax	**76.8**	66.2
Underlying operating margin[5]	**30.2%**	29.3%

1. Net investment management fee income is stated after deducting fees and commission expenses paid to introducers
2. Presented net of interest expense paid on client accounts; excludes interest on own reserves and interest payable on Tier 2 loan notes issued
3. Fees from advisory services includes income from trust, tax and financial planning services (including Vision)
4. See table 8
5. Underlying profit before tax as a percentage of underlying operating income

Net investment management fee income increased by 16.0% to £189.5 million in 2017, benefiting from positive markets as well as organic and acquired growth in funds under management. Fees are applied to the value of funds on quarterly charging dates. Average funds under management on these billing dates in 2017 were £32.4 billion, up 14.9% from 2016 (see table 6).

Table 6. Investment Management – average funds under management

	2017 £bn	2016 £bn
Valuation dates for billing		
– 5 April	**31.5**	26.1
– 30 June	**32.0**	27.3
– 30 September	**32.5**	29.3
– 31 December	**33.8**	30.2
Average	**32.4**	28.2
Average FTSE 100 level[1]	**7426**	6659

1. Based on the corresponding valuation dates for billing

In 2017, net commission income of £38.7 million was broadly consistent with 2016. Higher trading volumes offset the impact of the greater number of accounts operating on a fee only tariff.

Net interest income of £11.6 million in the year was unchanged from 2016. The impact of lower base rates during much of 2017 was offset by a higher balance of cash in client portfolios over the course of the year. Cash held at the Bank of England grew from £1.1 billion at 31 December 2016 to £1.4 billion at the end of 2017.

The investment management loan book grew to £120.5 million by the end of the year and contributed £3.1 million to net interest income in 2017 (2016: £3.0 million). Also included in net interest income is £1.3 million (2016: £1.3 million) of interest payable on the Tier 2 notes which are callable in August 2020.

As shown in table 7, the average net operating basis point return on funds under management has fallen by 1.5 bps to 72.7 bps in 2017. This largely reflects the changes in business mix and the fee tiering impact of higher market levels.

Table 7. Investment Management – revenue margin

	2017 bps	2016 bps
Basis point return[1] from:		
– fee income	**58.4**	57.9
– commission	**11.9**	13.8
– interest	**2.4**	2.5
basis point return on funds under management	**72.7**	74.2

1. Underlying operating income (see table 5), excluding interest on own reserves, interest payable on Tier 2 notes issued, fees from advisory services and other income, divided by the average funds under management on the quarterly billing dates (see table 6)

Fees from advisory services and other income increased 18.4% to £14.8 million. This largely reflects a higher level of advisory fees earned by Vision, following a slower period of activity last year as the business completed a comprehensive file review exercise, and growth in in-house financial planning revenues.

Underlying operating expenses in Investment Management for 2017 were £177.8 million, compared to £160.1 million in 2016, an increase of 11.1%. This is highlighted in table 8.

Table 8. Investment Management – underlying operating expenses

	2017 £m	2016 £m
Staff costs[1]		
– fixed	**59.5**	57.6
– variable	**40.2**	32.4
Total staff costs	**99.7**	90.0
Other operating expenses	**78.1**	70.1
Underlying operating expenses	**177.8**	160.1
Underlying cost/income ratio[2]	**69.8%**	70.7%

1. Represents the costs of investment managers and teams directly involved in client-facing activities
2. Underlying operating expenses as a % of underlying operating income (see table 5)

Fixed staff costs of £59.5 million increased by 3.3% year-on-year, principally reflecting a 5.9% increase in average headcount and salary inflation.

As results improved, variable staff costs, also increased by 24.1% reflecting both the higher profitability in the period and an improved investment performance element for growth awards.

Other operating expenses of £78.1 million include property, depreciation, settlement, IT, finance and other central support services costs. The year-to-year increase of £8.0 million (11.4%) reflects increased investment in the business, recruitment and higher variable awards in support departments in line with overall business performance.

Unit Trusts

Table 9. Unit Trusts – funds

	2017 £m	2016 £m
Rathbone Income Fund	**1,433**	1,366
Rathbone Global Opportunities Fund	**1,168**	924
Rathbone Ethical Bond Fund	**1,100**	579
Rathbone Active Income Fund for Charities	**173**	116
Rathbone Global Alpha Fund	**127**	120
Rathbone Strategic Bond Fund	**108**	62
Rathbone Blue Chip Income and Growth Fund	**78**	71
Rathbone UK Opportunities Fund	**61**	78
Rathbone Multi Asset Portfolios	**736**	447
Other funds	**383**	291
	5,367	4,054

Unit Trusts' financial performance is principally driven by the value and growth of funds under management. Year-on-year changes in the key performance indicators for Unit Trusts are shown in table 9.

Table 9. Unit Trusts – key performance indicators

	2017	2016
Funds under management at 31 December[1]	**5.3**	4.0
Underlying rate of net growth in Unit Trusts funds under management[1]	**21.8%**	18.0%
Underlying profit before tax[2]	**10.7**	8.7

1. See table 10
2. See table 12

Funds under management

Net retail sales in the asset management industry of approximately £47 billion were up around £40 billion on 2016, as reported by the Investment Association (IA). The IA pointed specifically to substantial growth of inflows into ethical funds, with sustainable investment becoming an "increasing priority for today's investors". The industry funds under management total reached a record £1.2 trillion by the end of the year, up around 15% on the total at the end of 2016.

In total, the IA sectors in which we manage funds saw net inflows of £11.9 billion, compared to net outflows of £6.1 billion in 2016. Gross sales in those sectors were up 31.7% at £99.8 billion in 2017. In line with these trends, positive momentum in sales of our funds continued through 2017, with gross sales up 30.8% in the year to £1.7 billion. Redemptions also remained elevated in 2017 at £0.9 billion (2016: £0.7 billion), reflecting the increased levels of disinvestment seen across the industry. This level of net sales put us in the top 20 fund managers for 2017, according to the Pridham Report.

Net inflows of £0.9 billion (2016: £0.6 billion) continued to be spread across the range of funds although the Ethical Bond fund saw particularly strong net flows in the year, nearly doubling in size to £1.1 billion by the end of the year. As a result, Unit Trusts funds under management closed the year up 32.5% at £5.3 billion (see table 10).

At 31 December 2017, we managed £428 million via the Luxembourg-based feeder funds, up 95.4% from £219 million at the end of 2016.

Table 10. Unit Trusts – funds under management

	2017 £bn	2016 £bn
As at 1 January	**4.0**	3.1
Net inflows	**0.9**	0.6
– inflows[1]	**1.7**	1.3
– outflows[1]	**(0.8)**	(0.7)
Market adjustments[2]	**0.4**	0.3
As at 31 December	**5.3**	4.0
Underlying rate of net growth[3]	**21.8%**	18.0%

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

During the year, the retail and multi asset funds delivered strong positive returns, and a solid performance against their relevant benchmarks. The Global Opportunities Fund benefited from a high exposure to US equities and a substantial weighting to technology stocks. Both fixed income funds delivered excellent returns and effectively managed volatility, with the Ethical Bond fund recording the best return of any fund in its sector. The UK Opportunities fund exposure to mid- and small-cap names contributed to a top quartile performance.

Whilst the Income and Blue Chip Funds generated positive returns over the year, both under-performed compared to other funds in the UK Equity Income sector due the more defensive positioning of the portfolios and a small number of stock specific issues. The multi asset range of funds outperformed their risk adjusted benchmarks and added value through their increased exposure to direct equities.

Table 11. Unit Trusts – performance[1,2]

2017/(2016) Quartile ranking[3] over	1 year	3 years	5 years
Rathbone Blue Chip Income and Growth Fund	4 (3)	4 (2)	4 (2)
Rathbone Ethical Bond Fund	1 (4)	1 (2)	1 (1)
Rathbone Global Opportunities Fund	1 (4)	1 (2)	1 (1)
Rathbone Income Fund	4 (3)	3 (1)	3 (2)
Rathbone UK Opportunities Fund	1 (3)	1 (3)	2 (2)
Rathbone Strategic Bond Fund	2 (2)	2 (2)	2 (3)

1. Quartile ranking data is sourced from FE Trustnet
2. Excludes multi-asset funds, for which quartile rankings are prohibited by the IA, non-publicly marketed funds and segregated mandates. Funds included in the above table account for 74% of the total FUM of the Unit Trusts business.
3. Ranking of institutional share classes at 31 December 2017 and 2016 against other funds in the same IA sector, based on total return performance, net of fees (consistent with investment performance information reported in the funds' monthly factsheets)

As at 31 December 2017, 88% of holdings in Unit Trusts' retail funds were in institutional units (31 December 2016: 85%).

During 2017, the total number of investment professionals in Unit Trusts decreased to 13 at 31 December 2017 from 14 at the end of 2016.

Financial performance

Unit Trusts' income is primarily derived from:

- annual management charges, which are calculated on the daily value of funds under management, net of rebates and trail commission payable to intermediaries
- net dealing profits, which are earned on the bid-offer spread from sales and redemptions of units and market movements on the stock of units that are held on our books overnight.

Net annual management charges increased 30.2% to £28.0 million in 2017, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management fell to 60 bps (2016: 62 bps) reflecting the strong growth in the Ethical Bond Fund, which levies a lower rate of annual management charges.

Table 12. Unit Trusts – financial performance

	2017 £m	2016 £m
Net annual management charges	**28.0**	21.5
Net dealing profits	**3.1**	3.1
Interest and other income	**0.3**	0.4
Underlying operating income	**31.4**	25.0
Underlying operating expenses[1]	**(20.7)**	(16.3)
Underlying profit before tax	**10.7**	8.7
Operating % margin[2]	**34.1%**	34.8%

1. See table 13
2. Underlying profit before tax divided by underlying operating income

Net dealing profits of £3.1 million were unchanged compared with the previous year. We continue to expect that these revenues will be lost when the FCA publishes its final guidance following the Asset Management Market Study.

Underlying operating income as a percentage of average funds under management fell to 67 bps in 2017 from 72 bps in 2016.

Table 13. Unit Trusts – underlying operating expenses

	2017 £m	2016 £m
Staff costs[1]		
– Fixed	**3.0**	3.0
– Variable	**7.2**	5.3
Total staff costs	**10.2**	8.3
Other operating expenses	**10.5**	8.0
Underlying operating expenses	**20.7**	16.3
Underlying cost/income ratio[1]	**65.9%**	65.2%

1. Underlying operating expenses as a % of underlying operating income (see table 12)

Fixed staff costs of £3.0 million for the year ended 31 December 2017 were unchanged from the £3.0 million recorded in 2016. In 2017, the cost of Unit Trusts' compliance team was absorbed into the central compliance function and recharged as an inter-segment charge.

Variable staff costs of £7.2 million were 35.8% higher than £5.3 million in 2016 as higher profitability and growth in gross sales drove increases in profit share and sales commissions.

Other operating expenses have increased by 31.3% to £10.5 million, reflecting an increase in third party administration costs in line with growth in the business and higher inter-segment charges for the central compliance and distribution teams.

Financial position

Table 14. Group's financial position

	2017 £m (unless stated)	2016 £m (unless stated)
Capital resources:		
– Common Equity Tier 1 ratio[1]	**20.7%**	17.7%
– Total Own Funds ratio[2]	**22.2%**	19.5%
– Total equity	**363.3**	324.8
– Tier 2 subordinated loan notes	**19.7**	19.6
– Risk-weighted assets	**977.2**	892.7
– Return on assets[3]	**1.8%**	1.8%
– Leverage ratio[4]	**7.8%**	6.6%
Other resources:		
– Total assets	**2,738.9**	2,404.0
– Treasury assets[5]	**2,303.9**	1,995.2
– Investment management loan book	**120.5**	106.3
– Intangible assets from acquired growth[6]	**151.7**	160.7
– Tangible assets and software[7]	**26.7**	23.1
Liabilities:		
– Due to customers[8]	**2,170.5**	1,888.9
– Net defined benefit pension liability	**15.6**	39.5

1. Common Equity Tier 1 capital as a proportion of total risk exposure amount
2. Total own funds (see table 15) as a proportion of total risk exposure amount
3. Profit after tax divided by average total assets
4. Common Equity Tier 1 capital as a % of total assets, excluding intangible assets, plus certain off balance sheet exposures
5. Balances with central banks, loans and advances to banks and investment securities
6. Net book value of acquired client relationships and goodwill
7. Net book value of property, plant and equipment and computer software
8. Total amounts of cash in client portfolios held by Rathbone Investment Management as a bank

Capital resources

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

At 31 December 2017, the group's regulatory capital resources (including verified profits for the year) were £216.8 million (2016: £174.2 million).

Table 15. Regulatory capital resources

	2017 £m	2016 £m
Share capital and share premium	**145.7**	142.5
Reserves	**222.5**	188.5
Less:		
– Own shares	**(4.9)**	(6.2)
– Intangible assets[1]	**(161.3)**	(166.4)
Total Common Equity Tier 1 capital resources	**202.0**	158.4
Tier 2 capital resources	**14.8**	15.8
Total own funds	**216.8**	174.2

1. Net book value of goodwill, client relationship intangibles and software are deducted directly from capital resources

Common Equity Tier 1 capital (CET1) resources increased by £43.6 million during 2017, largely due to the inclusion of verified profits for the 2017 financial year, net of dividends paid in the year, and post-tax actuarial gains of £14.4 million arising from the remeasurement of defined benefit pension schemes.

The CET1 ratio has grown to 20.7% from 17.7% at the previous year end in line with the growth in CET1 resources. Our consolidated CET1 ratio is higher than the banking industry norm, reflecting the low risk nature of our banking activity.

The leverage ratio was 7.8% at 31 December 2017, up from 6.6% at 31 December 2016. The leverage ratio represents our CET1 capital as a percentage of our total assets, excluding intangible assets, plus certain off balance sheet exposures.

The business is primarily funded by equity, but also supported by £20 million of 10 year Tier 2 subordinated loan notes. The notes introduce a small amount of gearing into our balance sheet as a way of financing future growth in a cost-effective and capital-efficient manner. They are repayable in August 2025, with a call option for the issuer in August 2020 and annually thereafter. Interest is payable at a fixed rate of 5.856% until the first call option date and at a fixed margin of 4.375% over six-month LIBOR thereafter.

The consolidated balance sheet remains healthy with total equity of £363.3 million at 31 December 2017, up 11.9% from £324.8 million at the end of 2016, primarily reflecting retained profits for the year and an improvement in the reported position of our defined benefit pension schemes.

Own funds and liquidity requirements

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

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

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 31 December 2017, the group's risk weighted assets were £977.2 million (2016: £892.7 million).

Pillar 2 – supervisory review process

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

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

Our Pillar 2A own funds requirement was reviewed by the PRA during 2017 and we have agreed a revised requirement. This includes the incorporation of a higher Pillar 2A requirement in respect of pension risk.

Pension obligation risk

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

Interest rate risk in the banking book

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

Concentration risk

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

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

Capital conservation buffer (CCB)

The CCB is a general buffer, designed to provide for losses in the event of a stress and is being phased in from 1 January 2016 to 1 January 2019. As at 31 December 2017, the buffer rate was 1.25% of risk-weighted assets. On 1 January 2018, it increased to 1.875% of risk-weighted assets and it will finally increase to 2.5% of risk weighted assets from 1 January 2019.

Countercyclical capital buffer (CCyB)

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

The buffer rate is currently set at zero for the UK. However, non-zero rates for Norway, Sweden and Hong Kong, where the group has small relevant credit risk exposures, result in an overall rate of 0.01% of risk-weighted assets for the group as at 31 December 2017. The FPC has announced the rate for UK exposures will increase to 0.5% with effect from June 2018 and to 1.0% with effect from November 2018.

PRA buffer

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

The group's own funds requirements were as follows:

Table 16. Group's own funds requirements[1]

	2017 £m	2016 £m
Credit risk requirement	**39.5**	36.9
Market risk requirement	**0.4**	0.4
Operational risk requirement	**38.4**	34.2
Pillar 1 own funds requirement	**78.3**	71.5
Pillar 2A own funds requirement	**46.1**	27.9
Total Pillar 1 and 2A own funds requirements	**124.4**	99.4
CRD IV buffers:		
- capital conservation buffer (CCB)	**18.3**	11.2
- countercyclical buffer (CCyB)	**0.1**	0.3
Total Pillar 1 and 2A own funds requirements and CRD IV buffers	**142.8**	110.9

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

The surplus of own funds (including verified profits for the full year) over total Pillar 1 and 2A own funds requirements and CRD IV buffers was £74.0 million, up from £63.3 million at the end of 2016.

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

- future volatility in pension scheme valuations which affect both the level of CET1 own funds and the value of the Pillar 2A requirement for pension risk;
- the staged introduction of incremental CRD IV buffers over the next two years;
- regulatory developments; and
- the demands of future acquisitions which generate intangible assets and, therefore, directly reduce CET1 resources.

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

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

Total assets

Total assets at 31 December 2017 were £2.7 billion (2016: £2.4 billion), of which £2.2 billion (2016: £1.9 billion) represents the cash element of client portfolios that is held as a banking deposit.

Treasury assets

As a licensed deposit taker, Rathbone Investment Management holds our surplus liquidity on its balance sheet together with clients' cash. Cash in client portfolios as held on a banking basis of £2.2 billion (2016: £1.9 billion) represented 6.4% of total investment management funds at 31 December 2017 compared to 6.3% at the end of 2016. Cash held in client money accounts was £4.5 million (2016: £4.5 million).

The treasury department of Rathbone Investment Management, reporting through the banking committee to the board, operates in accordance with procedures set out in a board-approved treasury manual and monitors exposure to market, credit and liquidity risk. It invests in a range of securities issued by a relatively large number of counterparties. These counterparties must be single 'A'-rated or higher by Fitch and are regularly reviewed by the banking committee. During the year, we increased the share of treasury assets held with the Bank of England to £1.4 billion from £1.1 billion at 31 December 2016, reflecting the increase in the level of cash held in client portfolios over the period and a consistent appetite for credit risk.

Loans to clients

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

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

Loans advanced totalled £120.5 million at the end of 2017 (2016: £106.3 million).

Intangible assets

Intangible assets arise principally from acquired growth in funds under management and are categorised as goodwill and client relationships. At 31 December 2017, the total carrying value of intangible assets arising from acquired growth was £151.7 million (2016: £160.7 million). During the year, client relationship intangible assets of £2.7 million were capitalised (2016: £7.9 million). No goodwill was acquired during 2017 (2016: £nil).

Client relationship intangibles are amortised over the estimated life of the client relationship, generally a period of 10 to 15 years. When client relationships are lost, any related intangible asset is derecognised in the year. The total amortisation charge for client relationships in 2017, including the impact of any lost relationships, was £11.4 million (2016: £11.7 million).

Goodwill which arises from business combinations is not amortised, but is subject to a test for impairment at least annually. During the year, the goodwill relating to the trust and tax business was found to be impaired as the growth forecasts for that business have not kept pace with cost inflation. An impairment charge of £0.3 million was recognised in relation to this element of goodwill (2016: £0.1 million).

As described in note 1, the adoption of IFRS 15 in 2018 requires us to change the accounting policy for these awards. Currently, the cost of awards for funds introduced by investment managers who have been in situ for more than 12 months are charged to profit or loss (2017: £5.1 million). Under the new accounting standard, these amounts will also be capitalised and amortised over the life of the client relationship.

Capital expenditure

During 2017, we have continued to invest for future growth with capitalised expenditure on our premises and systems totalling £11.3 million (2016: £15.1 million). As noted above, capital expenditure in 2016 included £9.9 million for the fit out of the new London head office. Further costs of £2.8 million were incurred to complete this in 2017.

Investment in new systems accelerated in 2017 with the development of a new client relationship management (CRM) system. Total costs of £7.1 million for the purchase and development of software were incurred in 2017 (2016: £2.9 million).

Excluding the London office fit out costs, new investment accounted for approximately 79% of capital expenditure in 2017 (2016: 67%), with the balance being maintenance and replacement of existing software and equipment. This is more weighted to new investment than prior years due to the development of the CRM system and improvements relating to the introduction of MiFID II and the General Data Protection Regime.

Defined benefit pension schemes

We operate two defined benefit pension schemes, both of which have been closed to new members for several years. With effect from 30 June 2017, we closed both schemes, ceasing all future benefit accrual and breaking the link to salary. The closure of the schemes resulted in a £5.5 million improvement in the reported position of the schemes.

The member consultation to close the scheme coincided with a period of historically exceptionally low yields on the government bonds that are used to derive cash equivalent transfer values (CETVs) for members wishing to exit the scheme, increasing the value of these CETVs markedly. This resulted in a significant increase in the number of members seeking to transfer their benefits out of the scheme by taking a cash lump sum and over the course of 2017, members transferred benefits with cumulative CETVs of £60.6 million out of the scheme. This reduced the accounting value of the liabilities of the Laurence Keen Scheme by 17% and the Rathbone 1987 Scheme by 29% compared to the position at 31 December 2016 and helped support an improvement in the schemes' deficit and funding levels.

As a result of the large value of transfers out, the accounting valuation of the schemes' liabilities has also fallen. At 31 December 2017 the combined schemes' liabilities, measured on an accounting basis, had fallen to £164.1 million, down 29.4% from £232.4 million at the end of 2016. Reflecting the performance of the schemes' assets over the course of the year, the reported position of the schemes at 31 December 2017 was a deficit of £15.6 million (2016: deficit of £39.5 million).

Triennial funding valuations form the basis of the annual contributions that we make into the schemes. During 2017, funding valuations of the schemes as at 31 December 2016 were being carried out. We have agreed with the trustees of the Rathbone 1987 Scheme to put in place a funding deficit reduction plan, which requires annual contributions of £2.75 million, so long as that scheme remains in deficit. The funding valuation for the LK scheme has not yet been finalised but we do not expect that it will result in a material funding deficit reduction plan.

Liquidity and cash flow

Table 17. Extracts from the consolidated statement of cash flows

	2017 £m	2016 £m
Cash and cash equivalents at the end of the year	**1,567.8**	1,263.1
Net cash inflows from operating activities	**351.5**	567.3
Net change in cash and cash equivalents	**304.7**	559.5

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

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

Cash and balances at central banks was £1.4 billion at 31 December 2017 (2016: £1.1 billion).

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

Net cash flows from operating activities include the effect of a £282.6 million increase in banking client deposits (2016: £486.0 million increase) and a £16.6 million increase in the component of treasury assets placed in term deposits for more than three months (2016: £16.8 million decrease).

Offsetting this, cash flows included a net outflow of £4.0 million from the purchase of longer dated certificates of deposit (2016: £7.0 million net inflow from the maturity of longer dated certificates of deposit), which is shown within investing activities in the consolidated statement of cash flows.

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

- outflows relating to the payment of dividends of £29.4 million (2016: £26.5 million)
- outflows relating to payments to acquire intangible assets (other than as part of a business combination) of £11.9 million (2016: £14.0 million)
- £4.2 million of capital expenditure on property, plant and equipment (2016: £12.2 million).

Risk management

During 2017, we have continued to evolve our risk management approach in support of our 'three lines of defence' model. Our risk governance, risk processes and risk infrastructure have continued to mature to ensure our management of risk considers existing and emerging challenges. In 2018, we will maintain our approach and ensure that appropriate risk management is applied across the group to protect our stakeholders.

Risk culture

We believe that an appropriate risk culture enhances the effectiveness of risk management. The board is responsible for setting the right tone and, through our senior management team, encouraging characteristics and behaviours which support a strong risk culture. The consideration of risk is therefore accepted as being part of everyone's day-to-day responsibilities and activities. Risk management is linked to performance and development, as well as to the group's remuneration and reward schemes. The purpose of this is to create an open and transparent working environment, encouraging employees to engage positively in risk management and support the effective achievement of our strategic objectives.

Three lines of defence

We continue to apply a 'three lines of defence' model to support our risk management framework, with responsibility and accountability for risk management broken down as follows:

First line: Senior management and operational business units are responsible for managing risks, by developing and maintaining effective internal controls to mitigate risk.

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

Third line: The internal audit function is responsible for providing independent assurance to both senior management and governing bodies as to the effectiveness of the group's governance, risk management and internal controls.

Risk appetite

We define risk appetite as both the amount and type of risk the group is prepared to accept or retain in pursuit of our strategy. Our appetite is subject to regular review to ensure it remains aligned to our strategic goals. Our risk appetite framework contains some overarching parameters, alongside specific primary and secondary measures for each principal risk. At least annually, the board, executive committee and group risk committee will formally review and approve the group's risk appetite statement and assess whether the firm has operated in accordance with the stated risk appetite measures during the year. Notwithstanding the continued expectations for business growth, along with a strategic and regulatory change programme for 2018, the board remains committed to having a relatively low overall appetite for risk, ensuring that our internal controls mitigate risk to appropriate levels. The board recognises that the business is susceptible to fluctuations in investment markets and has the potential to bear losses from financial and operational risks from time to time, either as reductions in income or increases in operating costs.

Identification and profiling of principal risks

Our risks are classified using a hierarchical approach. The highest level (Level 1) comprises financial, conduct and operational risks. The next level (Level 2) contains 16 risk categories, each allocated to a Level 1 risk. Detailed risks (Level 3) are then identified as sub-sets of Level 2 risks. Level 3 risks are captured and maintained within our group risk register, which is the principal tool for monitoring risks. We recognise that some Level 2 and Level 3 risks have features which need to be considered under more than one Level 1 risk, and this is facilitated in our framework through a system of primary and secondary considerations. Our risk classification is regularly reviewed and takes a structured approach to the identification of all known material risks to the business and those emerging risks which may impact future performance.

Our risk exposures and overall risk profile are reviewed and monitored regularly, considering the potential impact, existing internal controls and management actions required to mitigate the impact of emerging issues and likelihood of future events. To ensure we identify and manage our principal risks, reviews take place with risk owners, senior management and business units across the group. The risk function conducts these reviews and risk workshops regularly during the year.

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

We assess risks using a 1–4 scoring system. Each Level 3 risk is rated by assessing the inherent likelihood of its occurrence in a five-year period and the associated impact. A residual risk score and overall risk rating of high, medium, low or very low is then derived for the five-year period by taking into account an assessment of the internal control environment or insurance mitigation. The assessment of our control environment, carried out by senior management within the firm, includes contributions from first, second and third line data, monitoring and/or assurance activity.

Risk assessment process

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

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

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

The executive committee, group risk committee and other key risk-focused committees consider the risk assessments and provide challenge, which is reported through the governance framework and ultimately considered by the board.

Profile and mitigation of principal risks

As explained above, our risks are classified hierarchically in a three-level model. There are three Level 1 risks, 16 Level 2 risks and at Level 3 there are 44 risks, which form the basis of the group's risk register.

Our approach to managing risk continues to be underpinned by an understanding of our current risk exposures and consideration of how risks change over time.

The underlying risk profile and ratings for the majority of Level 2 risks have remained consistent during 2017. However, there have been some changes to risk ratings and the following table summarises the most important.

Based upon the risk assessment processes identified above, the board believes that the principal risks and uncertainties facing the group have been identified. These reflect the impact of strategic and regulatory change in the year including, for example MiFID II and the General Data Protection Regulation. The board remains vigilant to the risks associated with the pension schemes' deficit and the sub-letting of vacant office space in London. Otherwise, the board continues to believe that the other key risks to the business are operational risks that arise from growth and regulatory risks that may arise from continual changes to rules and standards in our sector.

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

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

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

Emerging risks and threats

Emerging risks, including legislative and regulatory change, have the potential to impact the group and its strategy. These risk factors are monitored through our watch list. During the year, the executive committee continued to recognise a number of emerging risks and threats to the financial services sector as a whole and to our business. We also recognise that the risk profile associated with outsourced activities can change over time and this will be an area of continued focus in 2018.

In addition to the group's view that we can reasonably expect current market conditions and uncertainties to remain throughout 2018, other developing risks include, for example, cyber threats, regulatory change and scenarios potentially arising from geopolitical developments, including Brexit.

We are monitoring the potential consequences of Brexit very closely. Our current assessment is that the direct impacts of Brexit are manageable given our largely UK based business model. However, we are conscious that the position might change and could raise unexpected challenges and also that second order effects might have broader impacts on the UK economy as a whole.

Ref	Risk	Description of change	Risk change in 2017
D	Pension	The schemes' valuation and funding deficit decreased materially due to the closure of the schemes during the year with a significant number of members transferring benefits out of the schemes. However, this still remains an important risk for the firm to manage.	▼
F	Performance and advice	Our forward-looking risk assessment increased during the year, largely reflecting regulatory drivers. In addition to changes delivered in 2017, we plan to improve our processes further in 2018 including how we take on clients and our approach to assessing suitability.	▲
G	Regulatory	Our risk assessment recognises the extent of regulatory change implemented in 2017, which continues into 2018, including, for example, MiFID II optimisation and the General Data Protection Regulation.	▲
K	Data Integrity and Security	We have increased our risk rating in this area based on our assessment of the increasing external threat profile, despite continuing investment in technology improvements.	▲
O	People	Although still regarded as a 'medium' risk, our forward-looking risk assessment increased during the year, reflecting industry-wide trends. We also recognise the importance of addressing the drivers behind our gender pay gap over the coming years.	▲

Financial risks

Ref	Level 2 risk	Residual rating I	Residual rating L	How the risk arises	Control environment
A	**Credit** The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement	Low	Low	This risk can arise from placing funds with other banks and holding interest-bearing securities. There is also a limited level of lending to clients	– Banking committee oversight – Counterparty limits and credit reviews – Treasury policy and procedures – Active monitoring of exposures – Client loan policy and procedures – Annual Internal Capital Adequacy Assessment Process
B	**Liquidity** The risk of having insufficient financial resources to meet obligations as they fall due, or that to secure access to such resources would be at an excessive cost	Low	Low	This risk can arise through day-to-day operations in so far as a significant proportion of client funds could be withdrawn in a short time period and marketable assets may not be realised in time and at the value required	– Banking committee oversight – Daily treasury procedures, reconciliations and reporting to senior management – Cash flow forecasting – Contingency funding plan – Annual Internal Liquidity Adequacy Assessment Process (including stress testing)
C	**Market** The risk that regulatory own funds will be adversely affected by changes in the level or volatility of interest rates, foreign currency exchange rates or market prices	Low	Low	This risk can arise through two primary areas: the exposure to mismatch between repricing of the firm's own financial assets and liabilities and, to a lesser extent, transactional foreign exchange risk	– Banking committee oversight – Documented policies and procedures – Daily monitoring of interest rates, exchange rates, maturity mismatch and extent of marketable assets – Robust application of policy and investment limits
D	**Pension** The risk that the cost of funding our defined benefit pension schemes increases, or their valuation affects dividends, reserves and capital	High	High	This risk can arise through a sustained deficit between the schemes' assets and liabilities. A number of factors impact a deficit including increased life expectancy, falling interest rates and falling equity prices	– Board, senior management and trustee oversight – Monthly valuation estimates – Triennial independent actuarial valuations – Investment policy – Senior management review and defined management actions – Annual Internal Capital Adequacy Assessment Process – Actions taken in October 2016 towards mitigating this exposure

Conduct risks

Ref	Level 2 risk	Residual rating I	Residual rating L	How the risk arises	Control environment
E	**Business model** The risk that the business model does not respond in an optimal manner to changing market conditions such that sustainable growth, market share or profitability is adversely affected	Med	Med	This risk can arise from strategic decisions which fail to consider the current operating environment, or can be influenced by external factors such as material changes in regulation or legislation within the financial services sector	– Board and executive oversight – A documented strategy – Annual business targets, subject to regular review and challenge – Regular reviews of pricing structure – Continued investment in the investment process, service standards and marketing – Trade body participation – Regular competitor benchmarking and analysis
F	**Performance and advice** The risk that clients receive inappropriate financial, trust or investment advice, inadequate documentation or unsuitable portfolios, resulting in a failure to meet clients' investment and/or other objectives or expectations	Med	Med	This risk can arise through a failure to appropriately understand the wealth management needs of our clients and a failure to apply suitable advice or investment strategies, along with having inadequate tools and systems in place to support our client-facing financial professionals	– Investment governance and structured committee oversight – Management oversight and segregated quality assurance and performance teams – Performance measurement and attribution analysis – Know your client suitability processes – Weekly investment management meetings – Investment manager reviews through supervisor sampling – Compliance monitoring
G	**Regulatory** The risk of failure by the group or a subsidiary to fulfil regulatory requirements and comply with the introduction of new, or changes to existing regulation	High	Med	This risk can arise from failures by the business to comply with existing regulation or failure to identify and react to regulatory change	– Board and executive oversight – Active involvement with industry bodies – Compliance monitoring programme to examine the control of key regulatory risks – Separate anti-money laundering role with specific responsibility – Oversight of industry and regulatory developments – Documented policies and procedures – Staff training and development
H	**Reputational** The risk of reputational damage from financial and non-financial events or from failing to meet stakeholders' expectations	Med	Low	This risk can arise due to a variety of reasons, primarily within Rathbones. These could include the conduct of the company or its employees, or the service or products provided to clients	– Staff training and development – Board and executive oversight – Strong corporate values and approach to governance – Positive culture regarding risk and regulation, supported by appropriate remuneration practices – Appropriate emphasis on the control environment through the 'three lines of defence' – Proactive and positive communications with key stakeholders – Crisis response plan – Monitoring of company performance relative to competitors

Operational risks

Ref	Level 2 risk	Residual rating I	Residual rating L	How the risk arises	Control environment
I	**Business change** The risk that the planning or implementation of change is ineffective or fails to deliver desired outcomes, the impact of which may lead to unmitigated financial exposures	Med	Low	This risk can arise if the business is too aggressive and unstructured in its change programme to manage project risks, resource capacity and capabilities to deliver business benefits. The firm also recognises the risks associated with its office move in London, which will lead to the sub-letting of some premises	– Executive and board oversight of material change programmes – Group programme board – Dedicated project office function, use of internal and, where required, external subject matter experts – Documented business plans and IT strategy – Two-stage assessment, challenge and approval of project plans – Documented project and change procedures – Active marketing of vacant space
J	**Business continuity** The risk that an internal or external event results in either failure of, or detriment to, core business processes or services	Med	Low	This risk can arise from the business failing to effectively control and administer its core operating systems, manage current and future resource requirements or maintain appropriate security of its infrastructure	– Group business continuity committee oversight – Documented crisis/incident management and disaster recovery plans – Regular disaster recovery testing – Continuous monitoring of IT systems availability – Off-site data centre
K	**Data integrity and security** The risk of a lack of integrity of, inappropriate access to or disclosure of client or company-sensitive information	Med	Med	This risk can arise from the firm failing to maintain and keep secure at all times sensitive and confidential data through its operating infrastructure, including the activities of employees and cyber threats	– Data security committee oversight – Data protection policy and procedures – System access controls and encryption – Penetration testing and multi-layer network security – Training and employee awareness programmes – Physical security
L	**Fraud** The risk of fraudulent action, either internal or external, being taken against the group or a subsidiary	Med	Low	This risk can arise from failures to implement appropriate management controls to detect or mitigate impropriety, either within or external to the business and services provided	– Executive oversight – Documented policies and procedures – Segregation of duties between front and back office – System authority and payment limits – System access controls – Training and employee awareness programmes
M	**Legal** The risk of legal action being taken against the group or a subsidiary or failure to comply with legislative requirements, resulting in financial loss and reputational damage	Med	Low	This risk can arise from inappropriate behaviour of individuals or from the inadequate drafting of the firm's contractual documentation	– Executive oversight – Retained specialist legal advisers – Routine control of risks which might lead to litigation if adverse outcomes are experienced by clients or other third parties – Documented policies and procedures – Training and employee awareness programmes

Ref	Level 2 risk	Residual rating I	Residual rating L	How the risk arises	Control environment
N	**Outsourcing** The risk of one or more third parties failing to provide or perform outsourced services to standards expected by the group, impacting the ability to deliver core services	Med	Low	This risk can arise due to significant unknown operational changes at key outsourced relationships, or a material change to their business model, which affects their ability to provide the required services for Rathbones	– Executive oversight – Supplier due diligence and regular financial reviews – Active relationship management, including regular service review meetings – Service level agreements and monitoring of key performance indicators – Compliance monitoring over regulated activities
O	**People** The risk of loss of key staff, lack of skilled resources and inappropriate behaviour or actions. This could lead to lack of capacity or capability threatening the delivery of business objectives, or behaviour leading to complaints, regulatory action or litigation	Med	Med	This risk can arise across all areas of the business as a result of resource management failures or from external factors such as increased competition or material changes in regulation	– Executive oversight – Succession and contingency planning – Transparent, consistent and competitive remuneration schemes – Contractual clauses with restrictive covenants – Continual investment in staff training and development – Employee engagement survey – Appropriate balanced performance measurement system
P	**Processing** The risk that the design or execution of client/financial/settlement transaction processes (including dealing activity) are inadequate or fail to deliver an appropriate level of service and protection to client or company assets	Low	Med	This risk can arise from the failure of management to implement and control operational processes and systems to support the volumes of transactions processed on a daily basis	– Authorisation limits and management oversight – Dealing limits and supporting system controls – Active investment in automated processes – Counter-review/'four-eyes' processes – Segregation of duties – Document procedures – Annual controls assessment (ISAE 3402 report)

Assessment of the company's prospects

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

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

The board's assessment considers all the principal risks identified by the group and assesses the sufficiency of our response to all Pillar 1 risks (credit, market and operational risks) to the required regulatory standards. In addition, the following risks were focused on for enhanced stress testing: equity market risk, interest rate risk, a loss of business/competition risk, business expansion risk and pension obligation risk.

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

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

Viability statement

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

The board considers five-year projections as part of its annual regulatory reporting cycle, which includes strategic and investment plans and its opinion of the likelihood of risks materialising. However, the given the uncertainties associated with predicting the future impact of investment markets on the business over this longer period, the directors have determined that a three-year period to 31 December 2020 continues to constitute an appropriate period over which to provide its viability statement. This is more aligned to its detailed capital planning activity.

Stress testing analysis shows that under scenarios such as a 45% fall in FTSE 100 levels or a 0% interest rate environment, the group remains profitable and is able to withstand the impact of such scenarios. An example of a mitigating action in such scenarios would be a reduction in dividend.

Based on this assessment, the directors confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2020.

Going concern

Details of the group's business activities, results, cash flows and resources, together with the risks it faces and other factors likely to affect its future development, performance and position are set out in the chairman's statement, chief executive's review, strategic report and group risk committee 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 company publishes Pillar 3 disclosures annually on its website, which provide detail about its regulatory capital resources and requirements. In July 2015, Rathbone Investment Management issued £20 million of 10- year subordinated loan notes to finance future growth. The group has no other external borrowings.

In 2017, the group has continued to generate organic growth in client funds under management and this is expected to continue. The directors believe that the company is well -placed to manage its business risks successfully despite the continuing uncertain economic and political outlook. As the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Interest and similar income		**13,501**	13,890
Interest expense and similar charges		**(1,907)**	(2,319)
Net interest income		**11,594**	11,571
Fee and commission income		**292,034**	253,192
Fee and commission expense		**(22,715)**	(17,936)
Net fee and commission income		**269,319**	235,256
Net trading income		**3,071**	3,103
Gain on plan amendment of defined benefit pension schemes		**5,523**	–
Other operating income		**2,065**	1,353
Operating income		**291,572**	251,283
Charges in relation to client relationships and goodwill		**(11,716)**	(11,735)
Acquisition-related costs		**(6,178)**	(5,985)
Head office relocation costs		**(16,248)**	(7,031)
Other operating expenses		**(198,529)**	(176,403)
Operating expenses		**(232,671)**	(201,154)
Profit before tax		**58,901**	50,129
Taxation	4	**(12,072)**	(11,972)
Profit after tax		**46,829**	38,157
Profit for the year attributable to equity holders of the company		**46,829**	38,157
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net remeasurement of defined benefit liability		**17,288**	(37,318)
Deferred tax relating to net remeasurement of defined benefit liability		**(2,939)**	5,936
Items that may be reclassified to profit or loss			
Revaluation of available for sale investment securities:			
- net gain from changes in fair value		**163**	93
- net profit on disposal transferred to profit or loss during the year		**(43)**	–
		120	93
Deferred tax relating to revaluation of available for sale investment securities		**(20)**	(14)
Other comprehensive income net of tax		**14,449**	(31,303)
Total comprehensive income for the year net of tax attributable to equity holders of the company		**61,278**	6,854
Dividends paid and proposed for the year per ordinary share	5	**61.0p**	57.0p
Dividends paid and proposed for the year		**30,429**	28,267
Earnings per share for the year attributable to equity holders of the company:	7		
- basic		**92.7p**	78.9p
- diluted		**91.9p**	78.2p

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Available for sale reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2016	2,407	97,643	31,835	71	(6,177)	174,413	300,192
Profit for the year						38,157	38,157
Net remeasurement of defined benefit liability						(37,318)	(37,318)
Net gain on revaluation of available for sale investment securities				93			93
Deferred tax relating to components of other comprehensive income				(14)		5,936	5,922
Other comprehensive income net of tax	–	–	–	79	–	(31,382)	(31,303)
Dividends paid						(26,479)	(26,479)
Issue of share capital	128	42,003					42,131
Share-based payments:							
– value of employee services						3,035	3,035
– cost of own shares acquired					(1,585)		(1,585)
– cost of own shares vesting					1,084	(1,084)	–
– own shares sold		345			435		780
– tax on share-based payments						(115)	(115)
At 1 January 2017	**2,535**	**139,991**	**31,835**	**150**	**(6,243)**	**156,545**	**324,813**
Profit for the year						**46,829**	**46,829**
Net remeasurement of defined benefit liability						**17,288**	**17,288**
Revaluation of available for sale investment securities:							
– net gain from changes in fair value				**163**			**163**
– net profit on disposal transferred to profit or loss during the year				**(43)**			**(43)**
Deferred tax relating to components of other comprehensive income				**(20)**		**(2,939)**	**(2,959)**
Other comprehensive income net of tax	**–**	**–**	**–**	**100**	**–**	**14,349**	**14,449**
Dividends paid						**(29,420)**	**(29,420)**
Issue of share capital	**31**	**3,098**					**3,129**
Share-based payments:							
– value of employee services						**3,591**	**3,591**
– cost of own shares acquired					**(441)**		**(441)**
– cost of own shares vesting					**1,820**	**(1,820)**	**–**
– tax on share-based payments						**328**	**328**
At 31 December 2017	**2,566**	**143,089**	**31,835**	**250**	**(4,864)**	**190,402**	**363,278**

Consolidated balance sheet

As at 31 December 2017

	2017 £'000	2016 £'000
Assets		
Cash and balances with central banks	**1,375,382**	1,075,673
Settlement balances	**46,784**	37,787
Loans and advances to banks	**117,253**	114,088
Loans and advances to customers	**126,213**	110,951
Investment securities:		
– available for sale	**109,312**	105,421
– held to maturity	**701,966**	700,000
Prepayments, accrued income and other assets	**74,445**	65,710
Property, plant and equipment	**16,457**	16,590
Net deferred tax asset	**9,061**	10,601
Intangible assets	**161,977**	167,192
Total assets	**2,738,850**	2,404,013
Liabilities		
Deposits by banks	**1,338**	294
Settlement balances	**54,452**	39,289
Due to customers	**2,170,498**	1,888,895
Accruals, deferred income, provisions and other liabilities	**108,391**	85,154
Current tax liabilities	**5,598**	6,523
Subordinated loan notes	**19,695**	19,590
Retirement benefit obligations	**15,600**	39,455
Total liabilities	**2,375,572**	2,079,200
Equity		
Share capital	**2,566**	2,535
Share premium	**143,089**	139,991
Merger reserve	**31,835**	31,835
Available for sale reserve	**250**	150
Own shares	**(4,864)**	(6,243)
Retained earnings	**190,402**	156,545
Total equity	**363,278**	324,813
Total liabilities and equity	**2,738,850**	2,404,013

Consolidated statement of cash flows

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit before tax		**58,901**	50,129
Net profit on disposal of available for sale investment securities		**(43)**	–
Net interest income		**(11,594)**	(11,571)
Net impairment charges on impaired loans and advances		**1**	9
Net charge for provisions		**16,728**	1,355
Profit on disposal of property, plant and equipment		**–**	(16)
Depreciation, amortisation and impairment		**19,415**	20,716
Foreign exchange movements		**1,480**	–
Defined benefit pension scheme charges		**(2,948)**	3,058
Defined benefit pension contributions paid		**(3,619)**	(5,422)
Share-based payment charges		**3,871**	5,201
Interest paid		**(1,663)**	(2,308)
Interest received		**13,084**	14,085
		93,613	75,236
Changes in operating assets and liabilities:			
– - net (increase)/decrease in loans and advances to banks and customers		**(16,643)**	16,785
– - net increase in settlement balance debtors		**(8,997)**	(19,839)
– - net increase in prepayments, accrued income and other assets		**(8,318)**	(6,392)
– - net increase in amounts due to customers and deposits by banks		**282,647**	486,000
– - net increase in settlement balance creditors		**15,163**	17,808
– - net increase in accruals, deferred income, provisions and other liabilities		**8,146**	9,762
Cash generated from operations		**365,611**	579,360
Tax paid		**(14,087)**	(12,025)
Net cash inflow from operating activities		**351,524**	567,335
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(2,532)
Purchase of property, plant, equipment and intangible assets		**(16,123)**	(26,137)
Proceeds from sale of property, plant and equipment		**–**	16
Purchase of investment securities		**(746,566)**	(905,701)
Proceeds from sale and redemption of investment securities		**742,581**	912,745
Net cash used in investing activities		**(20,108)**	(21,609)
Cash flows from financing activities			
Issue of ordinary shares		**2,688**	40,199
Dividends paid	5	**(29,420)**	(26,479)
Net cash (used in)/generated from financing activities		**(26,732)**	13,720
Net increase in cash and cash equivalents		**304,684**	559,446
Cash and cash equivalents at the beginning of the year		**1,263,074**	703,628
Cash and cash equivalents at the end of the year	9	**1,567,758**	1,263,074

1 Accounting policies

In preparing the financial information included in this statement the group has applied accounting policies which are in accordance with International Financial Reporting Standards as adopted by the EU at 31 December 2017. The accounting policies have been applied consistently to all periods presented in this statement, except as detailed below.

Rathbone Brothers Plc ('the company') is a public company incorporated and domiciled in England and Wales under the Companies Act 2006.

Developments in reporting standards and interpretations

Standards and interpretations affecting the reported results or the financial position

In the current year, the group has adopted the amendments to IAS 7 'Statement of Cash Flows', which improves disclosures on net debt in these financial statements. The group now provides a reconciliation between the opening and closing balances for liabilities arising from financial activities.

No other standards or interpretations, new or revised, have been adopted that have had a significant impact on the amounts reported in the financial statements.

Standards not affecting the reported results or the financial position

The following new and revised standards and interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements:

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

Future new standards and interpretations

A number of new standards and amendments to standards and interpretations will be effective for future annual periods beginning after 1 January 2017 and, therefore, have not been applied in preparing these consolidated financial statements. The effects of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' on the consolidated financial statements of the group are discussed below.

IFRS 9 'Financial Instruments'

IFRS 9 is effective for periods commencing on or after 1 January 2018. The standard was endorsed by the EU during 2016. The group has not adopted this standard early.

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.

Estimated impact of adoption of IFRS 9

The group has assessed the estimated impact that the initial application of IFRS 9 will have on its consolidated financial statements, based on the profile of its financial instruments as at the balance sheet date. From the work completed to date, the group estimates that adoption of IFRS 9 will not result in any material adjustments to opening equity, or the carrying amount of financial assets and liabilities recognised on the balance sheet.

Additional expected credit loss provisions recognised under IFRS 9 are expected to be immaterial, reflecting the high credit quality of instruments in the treasury book, the high level of security held against the Investment Management loan book and relatively low value of trade receivables.

IFRS 15 ' Revenue from Contracts with Customers'

IFRS 15 is effective for periods commencing on or after 1 January 2018 and replaces existing revenue recognition guidance, in particular under IAS 18. The standard was endorsed by the EU during 2016. The group has not adopted this standard early.

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.

Estimated impact of adoption of IFRS 15

The group has assessed its current policy for accounting for payments to newly recruited investment managers (see note 2.1) and expects to remove the 12 month limit on capitalisation of payments under the new standard. The policy will be unchanged in all other respects.

From the work completed to date, the group estimates that it will recognise a pre-tax adjustment of approximately £8 million to opening equity, with a corresponding adjustment to client relationship intangibles, in respect of the additional capitalisation of payments made to investment managers.

IFRS 16 ' Leases'

IFRS 16 is effective for periods commencing on or after 1 January 2019. The standard was endorsed by the EU 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.

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 its London head office premises. As at 31 December 2017, the group's future minimum lease payments under non-cancellable operating leases amounted to £90,602,000, 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 Critical accounting judgements and key sources of estimation and uncertainty

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

2.1 Client relationship intangibles

Client relationship intangibles purchased through corporate transactions

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

Payments to newly recruited investment managers

The group assesses whether payments made to newly recruited investment managers under contractual agreements represent payments for the acquisition of client relationship intangibles or remuneration for ongoing services provided to the group. If the payments are judged to be reliably measurable, capable of being sold separately and have a high probability of recoverability, they are capitalised as client relationship intangibles; otherwise, they are judged to be in relation to the provision of ongoing services and are expensed in the period in which they are incurred. Upfront payments made to investment managers upon joining are expensed as they are not judged to be incremental costs for acquiring the client relationships.

The group determines a suitable period during which awards accruing to new investment managers are capitalised. Typically, this will be for the period ending up to 12 months after the cessation of any non-compete period. After the defined period has elapsed, any payments made are charged to profit or loss.

During the year the group capitalised £2,743,000 of payments made to investment managers and expensed £5,094,000 (2016: £7,926,000 capitalised and £4,005,000 expensed). A reduction in the capitalisation period by one month would decrease client relationship intangibles by £281,000 and decrease profit before tax for the year by £281,000 (2016: £617,000 and £617,000 respectively).

Amortisation of client relationship intangibles

The group makes estimates as to the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and expectations for the future. During the year client relationship intangible assets were amortised over a 10 to 15 year period. Amortisation of £11,433,000 (2016: £11,594,000) was charged during the year. A reduction in the average amortisation period of one year would increase the amortisation charge by approximately £1,076,000 (2016: £1,100,000). At 31 December 2017, the carrying value of client relationship intangibles was £88,511,000 (2016: £97,201,000).

2.2 Retirement benefit obligations

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

2.3 Head office relocation

During the year, the group moved its head office to 8 Finsbury Circus, vacating 1 Curzon Street but retaining lease commitments until September 2023. This triggered recognition of a provision for the net cost of the surplus property at 1 Curzon Street until the end of the existing leases.

The value of the onerous lease provision is dependent on assumptions about the amount and timing of the cashflows to be received under any sublet agreement or assignment of the leases.

During the year, the group recognised an onerous lease provision, including the effect of discounting, of £16,265,000 (2016: £nil). At 31 December 2017, the outstanding provision stood at £11,478,000. Allowing for alternative assumptions about the duration of any void period, any rent-free periods offered and any discount on the passing rent, the onerous lease provision at 31 December 2017 could reasonably fall within the range of £7,600,000 to £15,100,000.

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; 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 group executive committee, which is the group's chief operating decision maker.

31 December 2017	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
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**
Underlying operating income	**254,619**	**31,430**	**–**	**286,049**
Staff costs - fixed	**(59,457)**	**(3,040)**	**(25,294)**	**(87,791)**
Staff costs - variable	**(40,240)**	**(7,246)**	**(5,843)**	**(53,329)**
Total staff costs	**(99,697)**	**(10,286)**	**(31,137)**	**(141,120)**
Other direct expenses	**(21,893)**	**(4,415)**	**(31,101)**	**(57,409)**
Allocation of indirect expenses	**(56,188)**	**(6,050)**	**62,238**	**–**
Underlying operating expenses	**(177,778)**	**(20,751)**	**–**	**(198,529)**
Underlying profit before tax	**76,841**	**10,679**	**–**	**87,520**
Charges in relation to client relationships and goodwill	**(11,716)**	**–**	**–**	**(11,716)**
Acquisition-related costs	**(1,273)**	**–**	**(4,905)**	**(6,178)**
Segment profit before tax	**63,852**	**10,679**	**(4,905)**	**69,626**
Gain on plan amendment of defined benefit pension schemes				**5,523**
Head office relocation costs				**(16,248)**
Profit before tax attributable to equity holders of the company				**58,901**
Taxation				**(12,072)**
Profit for the year attributable to equity holders of the company				**46,829**

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	**2,659,723**	**74,672**	**2,734,395**
Unallocated assets			**4,455**
Total assets			**2,738,850**

31 December 2016	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	163,268	21,532	–	184,800
Net commission income	38,904	–	–	38,904
Net interest income	11,571	–	–	11,571
Fees from advisory services and other income	12,578	3,430	–	16,008
Underlying operating income	226,321	24,962	–	251,283
Staff costs - fixed	(57,613)	(3,020)	(19,123)	(79,756)
Staff costs - variable	(32,437)	(5,333)	(7,210)	(44,980)
Total staff costs	(90,050)	(8,353)	(26,333)	(124,736)
Other direct expenses	(22,882)	(5,355)	(23,430)	(51,667)
Allocation of indirect expenses	(47,184)	(2,579)	49,763	–
Underlying operating expenses	(160,116)	(16,287)	–	(176,403)
Underlying profit before tax	66,205	8,675	–	74,880
Charges in relation to client relationships and goodwill	(11,735)	–	–	(11,735)
Acquisition-related costs	(5,985)	–	–	(5,985)
Segment profit before tax	48,485	8,675	–	57,160
Head office relocation costs				(7,031)
Profit before tax attributable to equity holders of the company				50,129
Taxation				(11,972)
Profit for the year attributable to equity holders of the company				38,157

	Investment Management £'000	Unit Trusts £'000	Total £'000
Segment total assets	2,340,973	54,912	2,395,885
Unallocated assets			8,128
Total assets			2,404,013

3 *Segmental information continued*

The following table reconciles underlying operating income to operating income:

	2017 £'000	2016 £'000
Underlying operating income	**286,049**	251,283
Gain on plan amendment of defined benefit pension schemes	**5,523**	–
Operating income	**291,572**	251,283

The following table reconciles underlying operating expenses to operating expenses:

	2017 £'000	2016 £'000
Underlying operating expenses	**198,529**	176,403
Charges in relation to client relationships and goodwill	**11,716**	11,735
Acquisition-related costs	**6,178**	5,985
Head office relocation costs	**16,248**	7,031
Operating expenses	**232,671**	201,154

Geographic analysis

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

	2017 £'000	2016 £'000
United Kingdom	**280,892**	241,882
Jersey	**10,680**	9,401
Operating income	**291,572**	251,283

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

	2017 £'000	2016 £'000
United Kingdom	**173,496**	178,172
Jersey	**4,938**	5,610
Non-current assets	**178,434**	183,782

Major clients

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

4 Income tax expense

	2017 £'000	2016 £'000
Current tax:		
– charge for the year	**13,466**	12,366
– adjustments in respect of prior years	**(303)**	(177)
Deferred tax:		
– credit for the year	**(1,034)**	(233)
– adjustments in respect of prior years	**(57)**	16
	12,072	11,972

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

The tax charge on profit for the year is higher (2016: higher) than the standard rate of corporation tax in the UK of 19.2% (2016: 20.0%). The differences are explained below:

	2017 £'000	2016 £'000
Tax on profit from ordinary activities at the standard rate of 19.2% (2016: 20.0%) effects of:	**11,338**	10,026
– disallowable expenses	**1,045**	958
– share-based payments	**(79)**	(72)
– tax on overseas earnings	**(230)**	(183)
– adjustments in respect of prior year	**(360)**	(161)
– deferred payments to previous owners of acquired companies	**247**	1,237
– other	**(28)**	63
Effect of change in corporation tax rate on deferred tax	**139**	104
	12,072	11,972

5 Dividends

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2016 of 36.0p (2015: 34.0p) per share	**18,236**	16,336
– interim dividend for the year ended 31 December 2017 of 22.0p (2016: 21.0p) per share	**11,184**	10,143
Dividends paid in the year of 58.0p (2016: 55.0p) per share	**29,420**	26,479
Proposed final dividend for the year ended 31 December 2017 of 39.0p (2016: 36.0p) per share	**19,245**	18,124

An interim dividend of 22.0p per share was paid on 3 October 2017 to shareholders on the register at the close of business on 8 September 2017 (2016: 21.0p).

A final dividend declared of 39.0p per share (2016: 36.0p) is payable on 14 May 2018 to shareholders on the register at the close of business on 20 April 2018. The final dividend is subject to approval by shareholders at the Annual General Meeting on 10 May 2018 and has not been included as a liability in the financial statements.

6 Distributable reserves

Reserves of Rathbone Brothers Plc available for distribution as at 31 December were comprised as follows:

	2017 £'000	2016 £'000
Net assets of Rathbone Brothers Plc	**209,589**	185,339
Less:		
– share capital	**(2,566)**	(2,535)
– share premium	**(143,089)**	(139,991)
Distributable reserves of Rathbone Brothers Plc	**63,934**	42,813

7 Earnings per share

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

	2017			2016		
	Pre-tax £'000	Taxation £'000	Post-tax £'000	Pre-tax £'000	Taxation £'000	Post-tax £'000
Underlying profit attributable to shareholders	**87,520**	**(17,426)**	**70,094**	74,880	(15,816)	59,064
Gain on plan amendment of defined benefit pension schemes	**5,523**	**(1,063)**	**4,460**	–	–	–
Charges in relation to client relationships and goodwill	**(11,716)**	**2,255**	**(9,461)**	(11,735)	2,347	(9,388)
Acquisition-related costs	**(6,178)**	**944**	**(5,234)**	(5,985)	91	(5,894)
Head office relocation costs	**(16,248)**	**3,218**	**(13,030)**	(7,031)	1,406	(5,625)
Profit attributable to shareholders	**58,901**	**(12,072)**	**46,829**	50,129	(11,972)	38,157

Basic earnings per share has been calculated by dividing profit attributable to shareholders by the weighted average number of shares in issue throughout the year, excluding own shares, of 50,493,984 (2016: 48,357,728).

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:

	2017	2016
Weighted average number of ordinary shares in issue during the year – basic	**50,493,984**	48,357,728
Effect of ordinary share options/Save As You Earn	**188,549**	114,415
Effect of dilutive shares issuable under the Share Incentive Plan	**59,030**	37,186
Effect of contingently issuable shares under the Executive Incentive Plan	**228,702**	260,655
Diluted ordinary shares	**50,970,265**	48,769,984

	2017	2016
Underlying earnings per share for the year attributable to equity holders of the company:		
– basic	**138.8p**	122.1p
– diluted	**137.5p**	121.1p

8 Related party transactions

Transactions with key management personnel

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

	2017 £'000	2016 £'000
Short term employee benefits	**10,951**	10,750
Post-employment benefits	**327**	330
Other long term benefits	**2,425**	1,581
Share-based payments	**2,187**	2,775
	15,890	15,436

Dividends totalling £408,000 were paid in the year (2016: £302,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2017, the group had outstanding interest-free season ticket loans of £6,000 (2016: £6,000) issued to key management personnel.

At 31 December 2017, key management personnel and their close family members had gross outstanding deposits of £4,059,000 (2016: £5,464,000) and gross outstanding banking loans of £728,000 (2016: £959,000), all of which (2016: all) were made on normal business terms. A number of the group's key management personnel and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates.

Other related party transactions

At 31 December 2017, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2016: £nil).

One group subsidiary, Rathbone Unit Trust Management, has authority to manage the investments within a number of unit trusts. Another group company, Rathbone Investment Management International, acted as investment manager for a protected cell company offering unitised private client portfolio services. During 2017, the group managed 25 unit trusts, Sociétés d'investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2016: 25 unit trusts and OEICs).

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

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

Year ended 31 December	2017 £'000	2016 £'000
Total management fees	**35,525**	27,783

As at 31 December	2017 £'000	2016 £'000
Management fees owed to the group	**3,266**	2,557
Holdings in unit trusts	**2,565**	1,864
	5,831	4,421

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

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

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

9 Consolidated statement of cash flows

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

	2017 £'000	2016 £'000
Cash and balances at central banks	**1,374,002**	1,075,673
Loans and advances to banks	**87,009**	83,844
Available for sale investment securities	**106,747**	103,557
At 31 December	**1,567,758**	1,263,074

Available for sale investment securities are amounts invested in money market funds, which are realisable on demand.

Cash flows arising from issuing ordinary shares comprise:

	2017 £'000	2016 £'000
Share capital issued	**31**	128
Share premium on shares issued	**3,098**	42,348
Shares issued in relation to share-based schemes for which no cash consideration was received	**(441)**	(1,631)
Shares issued in relation to business combinations	**–**	(646)
	2,688	40,199

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

	Liabilities	Equity			
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2017	**19,590**	**142,526**	**25,742**	**156,545**	**344,403**
Changes from financing cash flows					
Proceeds from issue of share capital	**–**	**3,129**	**–**	**–**	**3,129**
Proceeds from sale of treasury shares	**–**	**–**	**1,379**	**(1,820)**	**(441)**
Dividends paid	**–**	**–**	**–**	**(29,420)**	**(29,420)**
Total changes from financing cash flows	**–**	**3,129**	**1,379**	**(31,240)**	**(26,732)**
The effect of changes in foreign exchange rates	**–**	**–**	**–**	**–**	**–**
Changes in fair value	**–**	**–**	**–**	**–**	**–**
Other changes					
Liability-related					
Interest expense	**1,276**	**–**	**–**	**–**	**1,276**
Interest paid	**(1,171)**	**–**	**–**	**–**	**(1,171)**
Total liability-related changes	**105**	**–**	**–**	**–**	**105**
Total equity-related other changes	**–**	**–**	**100**	**65,097**	**65,197**
At 31 December 2017	**19,695**	**145,655**	**27,221**	**190,402**	**382,973**

10 Events after the balance sheet date

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

11 Financial information

The financial information set out in this preliminary announcement has been extracted from the Group's financial statements, which have been approved by the Board of directors and agreed with the Company's auditor.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 December 2017 or 2016. Statutory financial statements for 2016 have been delivered to the Registrar of Companies. Statutory financial statements for 2017 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor has reported on both the 2016 and 2017 financial statements. Their reports were unqualified and did not draw attention to any matters by way of emphasis. They also did not contain statements under Section 498 of the Companies Act 2006.

12 Forward-looking statements

This announcement contains certain forward-looking statements, which are made by the directors in good faith based on the information available to them at the time of their approval of the 2017 annual report. Statements contained within this announcement should be treated with some caution due to the inherent uncertainties (including but not limited to those arising from economic, regulatory and business risk factors) underlying any such forward-looking statements. This announcement has been prepared by Rathbone Brothers Plc to provide information to its shareholders and should not be relied upon for any other purpose.