Rathbone Brothers Plc
Interim statement 2017

Rathbones
Look forward

Rathbone Brothers Plc, 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.

As at 30 June 2017, Rathbone Brothers Plc managed £36.6 billion of client funds, of which £32.0 billion were managed by our Investment Management segment.

This interim statement 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 this interim statement. Forward looking statements contained within the interim statement should be treated with some caution due to the inherent uncertainties, including economic, regulatory and business risk factors, underlying any such forward looking statements.

We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise. The interim statement has been prepared by Rathbone Brothers Plc to provide information to its shareholders and should not be relied upon by any other party or for any other purpose.

Philip Howell
Chief Executive

Paul Stockton
Finance Director

24 July 2017

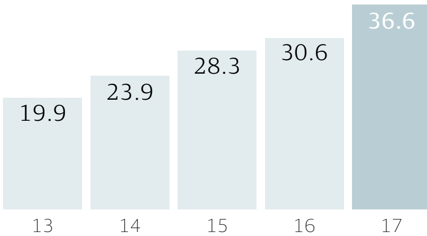
Half year highlights

Financial highlights as at 30 June 2017

Funds under management (£bn)

£36.6bn

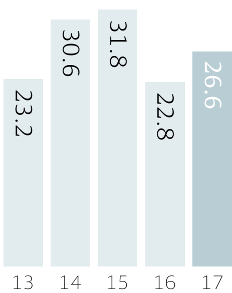
As at 30 June 2017 (31 December 2016: £34.2bn)



Profit before tax (£m)

£26.6m

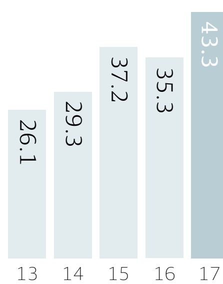
Half year 2017 (Full year 2016: £50.1m)



Underlying[1] profit before tax (£m)

£43.3m

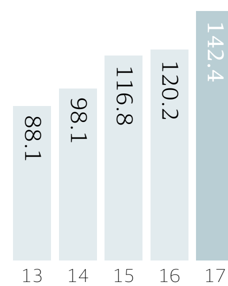
Half year 2017 (Full year 2016: £74.9m)



Underlying[2] operating income (£m)

£142.4m

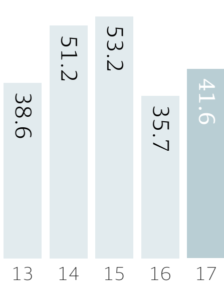
Half year 2017 (Full year 2016: £251.3m)



Basic earnings per share (p)

41.6p

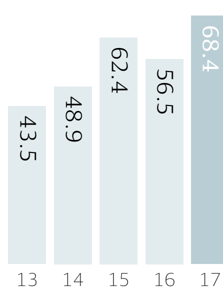
Half year 2017 (Full year 2016: 78.9p)



Underlying[1] earnings per share (p)

68.4p

Half year 2017 (Full year 2016: 122.1p)



Underlying operating margin[3] (%)

30.4%

Half year 2017	Half year 2016	Full year 2016
30.4%	29.4%	29.8%

Dividends paid and proposed per share (p)

22.0p

Half year 2017	Half year 2016	Full year 2016
22.0p	21.0p	57.0p

1. Profit before tax and earnings per share in 2017 include the impact of a plan amendment gain on the closure of the defined benefit pension schemes as well as additional costs relating to the acquisition of the Vision businesses in 2015, the planned London head office move to 8 Finsbury Circus and charges in relation to client relationships and goodwill; underlying results exclude these items. A full reconciliation between the underlying results and the statutory presentation is shown in note 7
2. Underlying operating income excludes a plan amendment gain realised on the closure of the group's pension schemes
3. Underlying profit before tax as a percentage of underlying operating income

Mark Nicholls
Chairman

Philip Howell
Chief Executive

Continuing growth in funds under management

In the first half of 2017, investment markets largely shrugged off political events and continued to build momentum with the FTSE 100 reaching all time highs during the period. Our own funds under management grew 7.0% to reach £36.6 billion at 30 June 2017, benefitting from a combination of continued acquired and organic growth and these resilient conditions. This compares to a 2.4% increase in the FTSE 100 Index and a 2.7% increase in the MSCI WMA Private Investor Balanced Index.

Funds under management in our Investment Management business were £32.0 billion at 30 June 2017 (2016: £30.2 billion). Investment Management net inflows were £0.6 billion in the first half (2016: £0.5 billion), representing a total annualised growth rate of 4.0% (2016: 4.2%). Net organic growth totalled £0.4 billion, up from £0.3 billion at 30 June 2016, equating to an annualised net organic growth rate of 2.9%. In the period, we experienced higher outflows from low margin accounts and adjusting for this, the annualised net organic growth rate was 3.4%. Purchased growth totalled £0.2 billion (2016: £0.2 billion), with nearly all investment managers set to meet or exceed their earn-out targets.

Our charities business continued to perform well and retained the position of the second biggest investment management provider to the top 5,000 charities in the UK. Its funds under management grew 4.9% to £4.3 billion in the first six months of 2017. The market profile of our ethical business, Rathbone Greenbank Investments, continues to rise with funds under management increasing by 9.6% to reach £946 million in the first half.

Funds under management in our Unit Trusts business increased 15.0% from £4.0 billion at 31 December 2016 to £4.6 billion at 30 June 2017. Positive markets and competitive investment performance helped to attract gross sales of £733 million compared to £576 million for the same period in 2016. In common with many in the industry, redemptions of £464 million were higher at the start of 2017 as investor concerns heightened and many sought to realise gains. Whilst the lead up to and subsequent results of the UK election did have some adverse impacts in June, net inflows for the first half totalled £269 million compared to £259 million at 30 June 2016.

We continue to strive to provide high-quality service to our clients and in May 2017, for the second year in a row, Rathbones was named both 'Private Client Asset Manager of the Year (Institutional)' at the *Citywealth* awards and 'Asset Manager of the Year' at the Better Society Awards. These awards recognise a continued excellence in client service, leadership and an overall contribution to the profession.

Underlying profit before tax up 22.7% to £43.3 million

Underlying profit before tax increased 22.7% to £43.3 million (2016: £35.3 million) in the first six months of 2017, representing an underlying profit margin of 30.4% (2016: 29.4%). Underlying earnings per share of 68.4p increased 21.1% from 56.5p in 2016.

Profit before tax for the half year of £26.6 million is 16.7% higher than the £22.8 million in 2016 and reflects £15.8 million of costs associated with the London office move (see note 3), offset by a plan amendment gain of £5.5 million arising from the closure of our defined benefit pension schemes with effect from 30 June 2017 (see note 13). Prior year profit before tax included charges of £4.4 million in respect of the acquisition of the Vision businesses. We are working hard to let our Curzon Street premises, though the rental market remains soft particularly in light of Brexit uncertainty.

Fee income of £105.5 million in the first half of 2017 increased 21.1% compared to the same period last year (2016: £87.1 million) reflecting positive markets and growth in organic and acquired new business over the period. The average FTSE 100 Index (calculated on our fee billing dates) was 7322, up 16.3% compared to 6298 a year ago. Fee income represented 74.1% of total underlying operating income in the six months ended 30 June 2017 (2016: 72.5%), as our fee only tariff becomes more widely adopted, helping to support our move to higher quality fee-based income.

Net commission income of £21.9 million was up 12.3% from £19.5 million in the first half of 2016, reflecting more positive investing conditions and a strong first quarter in particular. Net interest income was relatively stable at £5.6 million in the first half (2016: £5.7 million), as higher liquidity largely offset the impact of lower base interest rates. As active investment managers, we remain focused on balancing risks and returns, and as a result saw overall cash weightings in portfolios rise to 7.1% compared to 6.6% a year ago, reflecting a greater degree of uncertainty over future equity markets. Average deposits were £2.3 billion in the first half of the year compared to £1.7 billion a year ago. Client loans increased 8.7% to £115.5 million from £106.3 million at 31 December 2016. Fees from advisory services and other income increased 19.0% to £9.4 million (2016: £7.9 million), reflecting more positive flows from Vision following a slower period last year as the business completed a comprehensive file review exercise.

Underlying operating expenses of £99.1 million (2016: £84.9 million) increased 16.7% year-on-year. This was largely as a result of variable staff costs, which increased 32.3% to £25.8 million (2016: £19.5 million), reflecting both the higher profitability in the period and an improved investment performance element for growth awards. Variable staff costs as a percentage of underlying profit before variable staff costs also therefore increased to 37.3% (2016: 35.6%). In line with our strategy, planned additions in headcount increased fixed staff costs by 11.2% to £44.7 million (2016: £40.2 million) and average headcount in the first half of 2017 was 1,123, up 7.5% compared to 1,045 a year ago. Other direct costs of £28.6 million (2016: £25.2 million) were up 13.5% as a result of higher property costs and planned project expenditure.

Our effective tax rate for the first half of 2017 was 21.1% (2016: 25.3%). The prior year rate was higher as a result of deferred payments to acquire the Vision businesses. Our interim dividend has been increased by 1p per share to 22p (2016: 21p) and will be paid on 3 October 2017.

Progress on growth strategy

Vision continues to gain momentum and now has £1.2 billion of funds under advice on its discretionary investment management panel, up 20.0% from £1.0 billion at 31 December 2016, and 108 advisers, up from 99 at 31 December 2016. The business remains on track to grow to our target of 150 advisers and we remain confident in its growth prospects.

Our distribution strategy continues to focus on promoting our discretionary investment management services to professional intermediaries, principally national and regional IFA networks. It continues to make good progress with net flows of £108 million in the first six months of the year, up 96.4% from £55 million at the same time last year. We continue to build our presence in the intermediary market as evidenced by a May 2017 Defaqto report, which confirmed that the usage of Rathbones as a discretionary fund management provider to advisers had more than doubled in the last year, and placed Rathbones very highly in the critical areas of 'Quality of investment staff' and 'Service'. We successfully launched an execution only Managed Portfolio Service in March 2017, which attracted £7.2 million of net flows within the first three months of its launch.

With the Credit Suisse partnership fully operational, the Rathbone Private Office was formally launched in January. The nucleus team of three senior client advisers and four support staff is making good progress in promoting this new advisory capability. This service is offered directly to super high net worth clients and family offices as well as seeking introductions from the professional intermediary market and from our own investment manager community. The team has already engaged its first clients and is developing an encouraging pipeline of prospective clients for the full year.

We continue to focus on improving our client experience and striving for greater operational efficiency in our support functions with the aim of creating additional capacity for growth. At the full year, we outlined our plans to spend an additional £1 million in 2017 to implement a new client relationship management system and improve our client take on processes. These plans are developing more quickly than originally planned and in light of more favourable investment conditions, we have chosen to bring forward capital expenditure originally planned for 2018 to the second half of this year in order to accelerate delivery and improve functionality through greater automation. This brings the total expected capital expenditure in relation to our client relationship management system and client take on process improvement to approximately £2 million in 2017.

Expenditure on the other growth strategies remains in line with expectations. The relocation of our London head office to 8 Finsbury Circus has proved very successful.

Financial position and regulatory capital

Shareholders' equity of £342.4 million at 30 June 2017 increased 5.4% since 31 December 2016 (£324.8 million) and 22.4% since 30 June 2016 (£279.7 million). This is largely as a result of the fall in value of retirement benefit obligations which totalled £20.0 million at 30 June 2017, 49.4% lower than the £39.5 million recorded at 31 December 2016. This reflected a high number of members transferring their benefits out of the scheme, a reduction in the assumed rates of improvement in longevity and breakage of the link between pension entitlements and final salaries. Triennial valuation discussions with trustees are ongoing and are expected to complete in the second half of the year.

Total assets at 30 June 2017 were £2,829.9 million (31 December 2016: £2,404.0 million; 30 June 2016: £2,344.8 million), of which £2,215.1 million (31 December 2016: £1,888.9 million; 30 June 2016: £1,860.0 million) represents the cash element of client portfolios that is held as a banking deposit. As a result of these higher levels of cash, balances with central banks increased from £1,075.7 million at 31 December 2016 to £1,480.9 million at 30 June 2017 (30 June 2016: £960.1 million).

Our consolidated Common Equity Tier 1 ratio was 18.2% at 30 June 2017 (31 December 2016: 17.7%; 30 June 2016: 16.0%). Our consolidated leverage ratio was 6.2% at 30 June 2017 (31 December 2016: 6.6%; 30 June 2016: 6.2%). The capital surplus of own funds over the Pillar 1 and 2A requirements and CRD IV buffers was £69.9 million at 30 June 2017 (excluding year to date post-tax profits and improvements in the value of retirement benefit obligations) compared to £49.2 million at 30 June 2016, largely reflecting the impact of additional equity raised in October 2016 offset by higher capital requirements.

Business risks

The board believes that the nature of the principal risks and uncertainties which may have a material effect on the group's performance during the remainder of its financial year remain unchanged from those identified in the strategic report and group risk committee report in our 2016 annual report and accounts (pages 18 to 25 and pages 80 to 81 respectively).

Regulatory changes

We continue to prepare for the changes brought on by MiFID II and the General Data Protection Regime and are working hard to ensure our people and systems are compliant. We anticipate that the cost of these projects will be approximately £1.5 million, which will be absorbed by our normal expenditure budget for the year.

We note the recommendations of the recent FCA Asset Management Market Report and the sequence of consultations prior to final implementation. While we broadly welcome the proposals, they will have an impact on margins of our Unit Trusts business from 2018. In addition, as part of our implementation of MiFID II, research payments that have long been charged to our funds will, from 1 January 2018, be borne by the business. The impact of these changes will be significantly offset by a reduction in variable remuneration, some cost actions and by the continued funds growth momentum through this year and beyond. Fund box profits in our Unit Trusts business for the six months ended 30 June 2017 were £1.8 million and research costs currently borne by the funds totalled approximately £0.5 million for the same period.

Board and senior management changes

Following the announcement of David Harrel stepping down after nine years on the board, we are pleased to announce that Sarah Gentleman has now completed the regulatory approval process and has formally succeeded David as the chairman of the remuneration committee.

Outlook

The first six months of 2017 has seen another busy period for Rathbones as we continue to deliver our strategic plans without detracting from our high standards of service to our clients. We remain confident in the medium term potential of our growth strategy. Short term market conditions are dominated by a backdrop of ongoing geopolitical uncertainty and we will continue to invest with discipline.

Mark Nicholls
Chairman

Philip Howell
Chief Executive

Financial statements

Consolidated interim statement of comprehensive income

for the six months ended 30 June 2017

	Note	Unaudited Six months to 30 June 2017 £'000	Unaudited Six months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
Interest and similar income		**6,323**	7,141	13,890
Interest expense and similar charges		**(723)**	(1,394)	(2,319)
Net interest income		**5,600**	5,747	11,571
Fee and commission income		**144,600**	120,948	253,192
Fee and commission expense		**(10,636)**	(8,596)	(17,936)
Net fee and commission income		**133,964**	112,352	235,256
Net trading income		**1,769**	1,445	3,103
Gain on plan amendment of defined benefit pension schemes	13	**5,523**	–	–
Other operating income		**1,041**	657	1,353
Operating income		**147,897**	120,201	251,283
Charges in relation to client relationships and goodwill	10	**(5,960)**	(5,778)	(11,735)
Acquisition-related costs		**(487)**	(4,431)	(5,985)
Head office relocation costs	3	**(15,769)**	(2,257)	(7,031)
Other operating expenses		**(99,095)**	(84,910)	(176,403)
Operating expenses		**(121,311)**	(97,376)	(201,154)
Profit before tax		**26,586**	22,825	50,129
Taxation	5	**(5,612)**	(5,778)	(11,972)
Profit for the period attributable to equity holders of the company		**20,974**	17,047	38,157
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Net remeasurement of defined benefit liability		**13,495**	(29,080)	(37,318)
Deferred tax relating to the net remeasurement of defined benefit liability		**(2,294)**	4,535	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		**110**	12	93
– net profit on disposal transferred to profit or loss during the period		**(43)**	–	–
		67	12	93
Deferred tax relating to revaluation of available for sale investment securities		**(11)**	–	(14)
Other comprehensive income net of tax		**11,257**	(24,533)	(31,303)
Total comprehensive income for the period net of tax attributable to equity holders of the company		**32,231**	(7,486)	6,854
Dividends paid and proposed for the period per ordinary share	6	**22.0p**	21.0p	57.0p
Dividends paid and proposed for the period		**11,274**	10,160	28,267
Earnings per share for the period attributable to equity holders of the company:	7			
– basic		**41.6p**	35.7p	78.9p
– diluted		**41.3p**	35.4p	78.2p

Consolidated interim statement of changes in equity
for the six months ended 30 June 2017

	Note	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 (audited)		2,407	97,643	31,835	71	(6,177)	174,413	300,192
Profit for the period							17,047	17,047
Net remeasurement of defined benefit liability							(29,080)	(29,080)
Net gain on revaluation of available for sale investment securities					12			12
Deferred tax relating to components of other comprehensive income					–		4,535	4,535
Other comprehensive income net of tax		–	–	–	12	–	(24,545)	(24,533)
Dividends paid							(16,336)	(16,336)
Issue of share capital	14	12	3,817					3,829
Share-based payments:								
– value of employee services							734	734
– cost of own shares acquired						(1,043)		(1,043)
– cost of own shares vesting						659	(659)	–
– tax on share-based payments							(149)	(149)
At 30 June 2016 (unaudited)		2,419	101,460	31,835	83	(6,561)	150,505	279,741
Profit for the period							21,110	21,110
Net remeasurement of defined benefit liability							(8,238)	(8,238)
Net gain on revaluation of available for sale investment securities					81			81
Deferred tax relating to components of other comprehensive income					(14)		1,401	1,387
Other comprehensive income net of tax		–	–	–	67	–	(6,837)	(6,770)
Dividends paid							(10,143)	(10,143)
Issue of share capital	14	116	38,186					38,302
Share-based payments:								
– value of employee services							2,301	2,301
– cost of own shares acquired						(542)		(542)
– cost of own shares vesting						425	(425)	–
– own shares sold			345			435		780
– tax on share-based payments							34	34
At 31 December 2016 (audited)		**2,535**	**139,991**	**31,835**	**150**	**(6,243)**	**156,545**	**324,813**
Profit for the period							**20,974**	**20,974**
Net remeasurement of defined benefit liability							**13,495**	**13,495**
Revaluation of available for sale investment securities:								
– net gain from changes in fair value					**110**			**110**
– net profit on disposal transferred to profit or loss during the period					**(43)**			**(43)**
Deferred tax relating to components of other comprehensive income					**(11)**		**(2,294)**	**(2,305)**
Other comprehensive income net of tax		**–**	**–**	**–**	**56**	**–**	**11,201**	**11,257**
Dividends paid							**(18,236)**	**(18,236)**
Issue of share capital	14	**27**	**2,718**					**2,745**
Share-based payments:								
– value of employee services							**1,095**	**1,095**
– cost of own shares acquired						**(437)**		**(437)**
– cost of own shares vesting						**1,336**	**(1,336)**	**–**
– tax on share-based payments							**232**	**232**
At 30 June 2017 (unaudited)		**2,562**	**142,709**	**31,835**	**206**	**(5,344)**	**170,475**	**342,443**

Consolidated interim balance sheet
as at 30 June 2017

	Note	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	Audited 31 December 2016 £'000
Assets				
Cash and balances with central banks		**1,480,932**	960,115	1,075,673
Settlement balances		**99,197**	99,198	37,787
Loans and advances to banks		**148,257**	105,869	114,088
Loans and advances to customers	8	**123,303**	111,382	110,951
Investment securities:				
– available for sale		**126,800**	84,705	105,421
– held to maturity		**590,005**	725,000	700,000
Prepayments, accrued income and other assets		**72,323**	70,516	65,710
Property, plant and equipment	9	**17,133**	9,492	16,590
Deferred tax asset		**8,623**	8,083	10,601
Intangible assets	10	**163,323**	170,409	167,192
Total assets		**2,829,896**	2,344,769	2,404,013
Liabilities				
Deposits by banks		**9,065**	3,434	294
Settlement balances		**122,026**	74,856	39,289
Due to customers		**2,215,117**	1,860,023	1,888,895
Accruals, deferred income and other liabilities		**71,497**	55,309	70,410
Current tax liabilities		**5,395**	4,820	6,523
Provisions for liabilities and charges	11	**24,692**	15,080	14,744
Subordinated loan notes	12	**19,643**	19,541	19,590
Retirement benefit obligations	13	**20,018**	31,965	39,455
Total liabilities		**2,487,453**	2,065,028	2,079,200
Equity				
Share capital	14	**2,562**	2,419	2,535
Share premium	14	**142,709**	101,460	139,991
Merger reserve		**31,835**	31,835	31,835
Available for sale reserve		**206**	83	150
Own shares		**(5,344)**	(6,561)	(6,243)
Retained earnings		**170,475**	150,505	156,545
Total equity		**342,443**	279,741	324,813
Total liabilities and equity		**2,829,896**	2,344,769	2,404,013

The condensed consolidated interim financial statements were approved by the board of directors and authorised for issue on 24 July 2017 and were signed on their behalf by:

Philip Howell
Chief Executive

Paul Stockton
Finance Director

Company registered number: 01000403

Consolidated interim statement of cash flows
for the six months ended 30 June 2017

	Note	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	Audited 31 December 2016 £'000
Cash flows from operating activities				
Profit before tax		**26,586**	22,825	50,129
Net profit on disposal of available for sale investment securities		**(43)**	–	–
Net interest income		**(5,600)**	(5,747)	(11,571)
Net (recoveries)/impairment charges on impaired loans and advances		**(15)**	1	9
Net charge for provisions	11	**16,198**	1,014	1,355
Profit on disposal of property, plant and equipment		**–**	(13)	(16)
Depreciation, amortisation and impairment		**10,014**	9,925	20,716
Gain on plan amendment of defined benefit pension schemes	13	**(5,523)**	–	–
Defined benefit pension scheme charges		**2,134**	1,652	3,058
Defined benefit pension contributions paid		**(2,553)**	(3,268)	(5,422)
Share-based payment charges		**1,765**	1,860	5,201
Interest paid		**(676)**	(1,428)	(2,308)
Interest received		**9,455**	10,466	14,085
		51,742	37,287	75,236
Changes in operating assets and liabilities:				
– net decrease in loans and advances to banks and customers		**17,364**	46,368	16,785
– net increase in settlement balance debtors		**(61,410)**	(81,250)	(19,839)
– net increase in prepayments, accrued income and other assets		**(9,746)**	(14,328)	(6,392)
– net increase in amounts due to customers and deposits by banks		**334,991**	460,268	486,000
– net increase in settlement balance creditors		**82,737**	53,375	17,808
– net (decrease)/increase in accruals, deferred income, provisions and other liabilities		**(2,592)**	(5,057)	9,762
Cash generated from operations		**413,086**	496,663	579,360
Tax paid		**(6,833)**	(6,435)	(12,025)
Net cash inflow from operating activities		**406,253**	490,228	567,335
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		**–**	(2,258)	(2,532)
Purchase of property, equipment and intangible assets		**(9,923)**	(11,439)	(26,137)
Proceeds from sale of property, plant and equipment		**–**	13	16
Purchase of investment securities		**(295,703)**	(540,000)	(905,701)
Proceeds from sale and redemption of investment securities		**405,160**	522,745	912,745
Net cash generated from/(used in) investing activities		**99,534**	(30,939)	(21,609)
Cash flows from financing activities				
Issue of ordinary shares	17	**2,308**	2,786	40,199
Dividends paid		**(18,236)**	(16,336)	(26,479)
Net cash (used in)/generated from financing activities		**(15,928)**	(13,550)	13,720
Net increase in cash and cash equivalents		**489,859**	445,739	559,446
Cash and cash equivalents at the beginning of the period		**1,263,074**	703,628	703,628
Cash and cash equivalents at the end of the period	17	**1,752,933**	1,149,367	1,263,074

The accompanying notes form an integral part of the condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

1 Basis of preparation

Rathbone Brothers Plc ('the company') is the parent company of a group of companies ('the group') that provides personalised investment and wealth management services for private clients, charities and trustees. The group also provides financial planning, private banking, offshore fund management and trust administration services. The products and services from which the group derives its revenues are described in 'our services' on page 3 of the annual report and accounts for the year ended 31 December 2016 and have not materially changed since that date.

These condensed consolidated interim financial statements, on pages 6 to 25, are presented in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU. The condensed consolidated interim financial statements have been prepared on a going concern basis, using the accounting policies, methods of computation and presentation set out in the group's financial statements for the year ended 31 December 2016 except as disclosed below. The condensed consolidated interim financial statements should be read in conjunction with the group's audited financial statements for the year ended 31 December 2016, which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The information in this announcement does not comprise statutory financial statements within the meaning of section 434 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2016 are not the group's statutory accounts for that financial year. The group's financial statements for the year ended 31 December 2016 have been reported on by its auditors and delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified and did not draw attention to any matters by way of emphasis. It also did not contain a statement under section 498 of the Companies Act 2006.

Developments in reporting standards and interpretations

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. IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' are expected to have the most significant effect on the consolidated financial statements of the group.

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 changes the classification and measurement of financial instruments and the timing and extent of credit provisioning. The group has conducted a preliminary assessment of the potential impact, based on the profile of its financial instruments as at the balance sheet date, and is well advanced in its approach to classification and valuation.

Classification of financial assets

The basis of classification for financial assets under IFRS 9 is different from that under IAS 39. Financial assets will be classified into one of three categories: amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI). The held to maturity, loans and receivables and available for sale categories available under IAS 39 have been removed. In addition, the classification criteria for allocating financial assets between categories are different under IFRS 9. The group is well advanced in its classification of financial assets under the new standard.

IFRS 9 uses the same measurement bases as IAS 39 and the group has not yet identified any material differences arising from applying the new standard. Debt securities currently classified as held to maturity will be classified as amortised cost. Other assets currently carried at amortised cost such as cash with central banks and loans and advances to banks and customers will also continue to be classified as such. Money market funds currently classified as available for sale will be classified as FVOCI, given that although they are generally held to collect contractual cash flows, they can be redeemed, should the need arise.

Impairment of financial assets

Under IFRS 9, an expected credit loss model replaces the incurred loss model, meaning there no longer needs to be a triggering event in order to recognise impairment losses. A provision must be made for the amount of any loss expected to arise over the life of the group's financial assets. Under IAS 39, credit losses are recognised when they are incurred.

Under the expected credit loss model, a dual measurement approach applies whereby a financial asset will attract a loss allowance equal to either 12 month expected credit losses or lifetime expected credit losses. The latter applies if there has been a significant deterioration in the credit quality of the asset. This will require considerable judgement as to how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis.

The group's trade receivables (including trust and financial planning debtors) are generally short term and do not contain significant financing components. Therefore, the group expects to apply the simplified approach and reflect lifetime expected credit losses.

Treasury assets currently held by the group are of high credit quality and the group has not experienced any historical credit losses in its treasury or loan portfolios. Work conducted to date suggests that any impairment charges recognised in the financial statements under the new standard will be minimal.

Classification of financial liabilities

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

The group does not currently designate any liabilities as fair value through profit or loss and does not anticipate doing so. Therefore, under IFRS 9, the group expects to classify all financial liabilities as amortised cost, with no material impact on measurement.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 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 15 changes how and when revenue is recognised from contracts with customers. The group will be required to identify all contracts it has with customers in order to determine whether, how much and when revenue is recognised. The group is in the process of quantifying the potential impact of adopting the standard, based on its existing revenue streams. In addition, the group is considering the impact on its policy of capitalising costs to secure investment management contracts.

Net fee and commission income

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

The group has not yet identified any other revenue streams that will be materially impacted by the new standard.

Client relationship intangibles

Where payments are made to new investment managers to secure investment management contracts, such costs are capitalised and amortised, where they are separable, reliably measurable and expected to be recovered, under IAS 18.

IFRS 15 reinforces this view, stating that incremental costs of obtaining any contract with a customer shall be capitalised if the entity expects to recover those costs.

Therefore, the group does not believe the adoption of IFRS 15 will materially change the way it accounts for client relationship intangibles.

Transition

The group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach.

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 does not plan to adopt 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.

The group has conducted an initial quantification of the impact of adopting the standard, based on its existing lease contracts. The most significant impact is in respect of its new London head office premises.

1 Basis of preparation continued

Transition

Definition of a lease

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

– apply the new definition of a lease to all its contracts as if IFRS 16 had always applied; or

– apply a practical expedient and retain its previous assessments of which contracts contain a lease.

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

Retrospective approach

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

– retrospective approach; or

– modified retrospective approach with optional practical expedients.

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

Potential impact

The group'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.

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

Where the group acts as an intermediate lessor in a sub-lease arrangement it will need to make adjustments for such leases.

2 Segmental information

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

Six months ended 30 June 2017 (unaudited)	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	**92,523**	**13,018**	**–**	**105,541**
Net commission income	**21,869**	**–**	**–**	**21,869**
Net interest income	**5,600**	**–**	**–**	**5,600**
Fees from advisory services and other income	**7,433**	**1,931**	**–**	**9,364**
Underlying operating income	**127,425**	**14,949**	**–**	**142,374**
Staff costs – fixed	**(30,448)**	**(1,545)**	**(12,744)**	**(44,737)**
Staff costs – variable	**(19,675)**	**(3,507)**	**(2,604)**	**(25,786)**
Total staff costs	**(50,123)**	**(5,052)**	**(15,348)**	**(70,523)**
Other direct expenses	**(10,389)**	**(1,830)**	**(16,353)**	**(28,572)**
Allocation of indirect expenses	**(28,743)**	**(2,958)**	**31,701**	**–**
Underlying operating expenses	**(89,255)**	**(9,840)**	**–**	**(99,095)**
Underlying profit before tax	**38,170**	**5,109**	**–**	**43,279**
Charges in relation to client relationships and goodwill (note 10)	**(5,960)**	**–**	**–**	**(5,960)**
Acquisition-related costs	**(487)**	**–**	**–**	**(487)**
Segment profit before tax	**31,723**	**5,109**	**–**	**36,832**
Gain on plan amendment of defined benefit pension schemes (note 13)				**5,523**
Head office relocation costs (note 3)				**(15,769)**
Profit before tax				**26,586**
Taxation (note 5)				**(5,612)**
Profit for the period attributable to equity holders of the company				**20,974**

	Investment Management £'000	Unit Trusts £'000		Total £'000
Segment total assets	**2,758,696**	**66,358**		**2,825,054**
Unallocated assets				**4,842**
Total assets				**2,829,896**

2 Segmental information continued

Six months ended 30 June 2016 (unaudited)	Investment Management £'000	Unit Trusts £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	77,315	9,799	–	87,114
Net commission income	19,443	–	–	19,443
Net interest income	5,747	–	–	5,747
Fees from advisory services and other income	6,288	1,609	–	7,897
Underlying operating income	108,793	11,408	–	120,201
Staff costs – fixed	(29,075)	(1,541)	(9,576)	(40,192)
Staff costs – variable	(14,430)	(2,290)	(2,780)	(19,500)
Total staff costs	(43,505)	(3,831)	(12,356)	(59,692)
Other direct expenses	(11,254)	(2,600)	(11,364)	(25,218)
Allocation of indirect expenses	(22,487)	(1,233)	23,720	–
Underlying operating expenses	(77,246)	(7,664)	–	(84,910)
Underlying profit before tax	31,547	3,744	–	35,291
Charges in relation to client relationships and goodwill (note 10)	(5,778)	–	–	(5,778)
Acquisition-related costs	(4,431)	–	–	(4,431)
Segment profit before tax	21,338	3,744	–	25,082
Head office relocation costs (note 3)				(2,257)
Profit before tax				22,825
Taxation (note 5)				(5,778)
Profit for the period attributable to equity holders of the company				17,047

	Investment Management £'000	Unit Trusts £'000		Total £'000
Segment total assets	2,290,797	47,735		2,338,532
Unallocated assets				6,238
Total assets				2,344,770

Year ended 31 December 2016 (audited)	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 (note 10)	(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 (note 3)				(7,031)
Profit before tax				50,129
Taxation (note 5)				(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

The following table reconciles underlying operating income to operating income:

	Unaudited Six months to 30 June 2017 £'000	Unaudited Six months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
Underlying operating income	**142,374**	120,201	251,283
Gain on plan amendment of defined benefit pension schemes (note 13)	**5,523**	–	–
Operating income	**147,897**	120,201	251,283

The following table reconciles underlying operating expenses to operating expenses:

	Unaudited Six months to 30 June 2017 £'000	Unaudited Six months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
Underlying operating expenses	**99,095**	84,910	176,403
Charges in relation to client relationships and goodwill (note 10)	**5,960**	5,778	11,735
Acquisition-related costs	**487**	4,431	5,985
Head office relocation costs (note 3)	**15,769**	2,257	7,031
Operating expenses	**121,311**	97,376	201,154

Included within Investment Management underlying operating income is £951,000 (30 June 2016: £634,000; 31 December 2016: £1,412,000) of fees and commissions receivable from Unit Trusts. Intersegment sales are charged at prevailing market prices.

Geographic analysis

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

	Unaudited Six months to 30 June 2017 £'000	Unaudited Six months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
United Kingdom	**142,503**	115,798	241,882
Jersey	**5,394**	4,403	9,401
Operating income	**147,897**	120,201	251,283

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

Major clients

The group is not reliant on any one client or group of connected clients for generation of revenues. At 30 June 2017, the group provided investment management services to 49,000 clients (30 June 2016: 48,000; 31 December 2016: 48,000).

3 Head office relocation

On 6 January 2016, the group exchanged contracts for five 17-year leases for a total of 75,000 sq ft of office space at 8 Finsbury Circus. The group began recognising costs relating to rent and dilapidations on the new premises from the date the leases began, 13 May 2016.

The move to the 8 Finsbury Circus office concluded on 13 February 2017, which triggered recognition of a provision for the net cost of the surplus property at 1 Curzon Street until the end of the existing lease (see note 11).

During the six months to 30 June 2017, incremental costs of £15,769,000 (30 June 2016: £2,257,000; 31 December 2016: £7,031,000) were incurred as a result of the decision to move the head office to 8 Finsbury Circus. These incremental costs were as follows:

	Unaudited Six months to 30 June 2017 £'000	Unaudited Six months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
Rental costs for 8 Finsbury Circus prior to relocation	**538**	599	3,328
Accelerated depreciation charge for 1 Curzon Street	**779**	1,409	2,745
Provision for dilapidations	**123**	181	739
Net charge in relation to onerous lease provision (note 11)	**13,807**	–	–
Professional and other costs	**522**	68	219
	15,769	2,257	7,031

4 Staff numbers

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

	Unaudited Six months to 30 June 2017	Unaudited Six months to 30 June 2016	Audited Year to 31 December 2016
Investment Management:			
– investment management services	**724**	679	698
– advisory services	**89**	81	82
Unit Trusts	**27**	26	27
Shared services	**283**	259	259
	1,123	1,045	1,066

5 Taxation

The tax expense for the six months ended 30 June 2017 was calculated based on the estimated average annual effective tax rate. The overall effective tax rate for this period was 21.1% (six months ended 30 June 2016: 25.3%; year ended 31 December 2016: 23.9%).

	Unaudited Six months to 30 June 2017 £'000	Unaudited Six months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
United Kingdom taxation	**5,527**	4,805	11,953
Overseas taxation	**179**	92	236
Deferred taxation	**(94)**	881	(217)
	5,612	5,778	11,972

The underlying UK corporation tax rate for the year ending 31 December 2017 is 19.2% (2016: 20.0%).

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

6 Dividends

An interim dividend of 22.0p per share was declared on 24 July 2017 and is payable on 3 October 2017 to shareholders on the register at the close of business on 8 September 2017 (30 June 2016: 21.0p). In accordance with IFRS, the interim dividend has not been included as a liability in this interim statement. A final dividend for 2016 of 36.0p per share was paid on 16 May 2017.

7 Earnings per share

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

	Unaudited Six months to 30 June 2017		Unaudited Six months to 30 June 2016		Audited Year to 31 December 2016	
	Pre-tax £'000	Post-tax £'000	Pre-tax £'000	Post-tax £'000	Pre-tax £'000	Post-tax £'000
Underlying profit attributable to equity holders	**43,279**	**34,457**	35,291	27,020	74,880	59,064
Gain on plan amendment of defined benefit pension schemes (note 13)	**5,523**	**4,460**	–	–	–	–
Charges in relation to client relationships and goodwill (note 10)	**(5,960)**	**(4,813)**	(5,778)	(4,622)	(11,735)	(9,388)
Acquisition-related costs	**(487)**	**(487)**	(4,431)	(3,545)	(5,985)	(5,894)
Head office relocation costs (note 3)	**(15,769)**	**(12,643)**	(2,257)	(1,806)	(7,031)	(5,625)
Profit attributable to equity holders	**26,586**	**20,974**	22,825	17,047	50,129	38,157

Basic earnings per share has been calculated by dividing profit attributable to equity holders by the weighted average number of shares in issue throughout the period, excluding own shares, of 50,403,394 (30 June 2016: 47,805,338; 31 December 2016: 48,357,728).

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

	Unaudited 30 June 2017	Unaudited 30 June 2016	Audited 31 December 2016
Weighted average number of ordinary shares in issue during the period – basic	**50,403,394**	47,805,338	48,357,728
Effect of ordinary share options/Save As You Earn	**171,711**	134,226	114,415
Effect of dilutive shares issuable under the Share Incentive Plan	**11,043**	12,207	37,186
Effect of contingently issuable ordinary shares under the Long Term and Executive Incentive Plans	**221,128**	217,754	260,655
Diluted ordinary shares	**50,807,276**	48,169,525	48,769,984

	Unaudited Six months to 30 June 2017	Unaudited Six months to 30 June 2016	Audited Year to 31 December 2016
Underlying earnings per share for the period attributable to equity holders of the company:			
– basic	**68.4p**	56.5p	122.1p
– diluted	**67.8p**	56.1p	121.1p

8 Loans and advances to customers

	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	Audited 31 December 2016 £'000
Overdrafts	**6,997**	6,232	3,740
Investment management loan book	**115,538**	104,180	106,335
Trust and financial planning debtors	**748**	953	855
Other debtors	**20**	17	21
	123,303	111,382	110,951

9 Property, plant and equipment

During the six months ended 30 June 2017, the group purchased assets with a cost of £3,022,000 (six months ended 30 June 2016: £2,276,000; year ended 31 December 2016: £12,175,000). The move to 8 Finsbury Circus accounted for £2,760,000 (six months ended 30 June 2016: £1,457,000; year ended 31 December 2016: £9,900,000) of the amount capitalised in the six months ended 30 June 2017.

No assets were disposed of in the six months ended 30 June 2017 (six months ended 30 June 2016 and year ended 31 December 2016: assets with a net book value of £nil) with no resulting gain or loss on disposal (six months ended 30 June 2016: gain on disposal of £13,000; year ended 31 December 2016: gain on disposal of £16,000).

10 Intangible assets

	Goodwill £'000	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total intangibles £'000
Cost					
At 1 January 2017	**64,272**	**144,652**	**4,936**	**24,354**	**238,214**
Internally developed in the period	**–**	**–**	**392**	**–**	**392**
Purchased in the period	**–**	**1,596**	**–**	**1,677**	**3,273**
Disposals	**–**	**(1,061)**	**–**	**–**	**(1,061)**
At 30 June 2017	**64,272**	**145,187**	**5,328**	**26,031**	**240,818**
Amortisation and impairment					
At 1 January 2017	**807**	**47,451**	**4,037**	**18,727**	**71,022**
Charge in the period	**283**	**5,677**	**241**	**1,333**	**7,534**
Disposals	**–**	**(1,061)**	**–**	**–**	**(1,061)**
At 30 June 2017	**1,090**	**52,067**	**4,278**	**20,060**	**77,495**
Carrying value at 30 June 2017 (unaudited)	**63,182**	**93,120**	**1,050**	**5,971**	**163,323**
Carrying value at 30 June 2016 (unaudited)	63,465	100,017	890	6,037	170,409
Carrying value at 31 December 2016 (audited)	63,465	97,201	899	5,627	167,192

The total amount charged to profit or loss in the period, in relation to goodwill and client relationships, was £5,960,000 (six months ended 30 June 2016: £5,778,000; year ended 31 December 2016: £11,735,000). A further £2,301,000 (six months ended 30 June 2016: £1,553,000; year ended 31 December 2016: £4,005,000) was expensed as staff costs during the period, representing amounts due for client relationships introduced more than 12 months after the cessation of any non-compete period.

Impairment

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

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

The calculated recoverable amount of goodwill allocated to the trust and tax CGU at 30 June 2017 was £864,000, which was lower than the carrying value of £1,147,000 at 31 December 2016. The recoverable amount was calculated based on forecast earnings for the current year, extrapolated for a 10 year period, assuming an annual decrease in revenues of 1.0% per annum (31 December 2016: decrease of 1.0% per annum). The pre-tax rate used to discount the forecast cash flows was 14.0% (31 December 2016: 11.3%) as the group judges this discount rate appropriately reflects the market in which the CGU operates and, in particular, its small size. The group has therefore recognised an impairment charge of £283,000 during the period. This impairment has been included in the Investment Management segment in the segmental analysis (note 2).

11 Provisions for liabilities and charges

	Deferred, variable costs to acquire client relationship intangibles £'000	Deferred and contingent consideration in business combinations £'000	Legal and compensation £'000	Property-related £'000	Total £'000
At 1 January 2016	13,392	3,908	721	1,795	19,816
Charged to profit or loss	–	–	855	306	1,161
Unused amount credited to profit or loss	–	(58)	(89)	–	(147)
Net charge to profit or loss	–	(58)	766	306	1,014
Other movements	4,783	48	–	–	4,831
Utilised/paid during the period	(7,902)	(2,258)	(421)	–	(10,581)
At 30 June 2016 (unaudited)	10,273	1,640	1,066	2,101	15,080
Charged to profit or loss	–	–	62	697	759
Unused amount credited to profit or loss	–	(21)	(397)	–	(418)
Net charge to profit or loss	–	(21)	(335)	697	341
Other movements	3,143	34	–	–	3,177
Utilised/paid during the period	(3,204)	(517)	(133)	–	(3,854)
At 1 January 2017 (audited)	**10,212**	**1,136**	**598**	**2,798**	**14,744**
Charged to profit or loss	**–**	**–**	**93**	**16,105**	**16,198**
Unused amount credited to profit or loss	**–**	**–**	**–**	**–**	**–**
Net charge to profit or loss	**–**	**–**	**93**	**16,105**	**16,198**
Other movements	**1,597**	**(13)**	**–**	**–**	**1,584**
Utilised/paid during the period	**(4,820)**	**–**	**(46)**	**(2,968)**	**(7,834)**
At 30 June 2017 (unaudited)	**6,989**	**1,123**	**645**	**15,935**	**24,692**
Payable within 1 year	**5,118**	**–**	**645**	**5,528**	**11,291**
Payable after 1 year	**1,871**	**1,123**	**–**	**10,407**	**13,401**
At 30 June 2017 (unaudited)	**6,989**	**1,123**	**645**	**15,935**	**24,692**

Deferred, variable costs to acquire client relationship intangibles

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

11 Provisions for liabilities and charges continued

Deferred and contingent consideration in business combinations

Deferred and contingent consideration of £1,123,000 (30 June 2016: £1,640,000; 31 December 2016: £1,136,000) is the present value of amounts payable at the end of 2019 in respect of the acquisition of Vision and Castle.

Legal and compensation

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

Property-related

Property-related provisions of £15,935,000 relate to dilapidation and onerous lease provisions expected to arise on leasehold premises held by the group (30 June 2016: £2,101,000; 31 December 2016: £2,798,000).

The move to the 8 Finsbury Circus office was completed on 13 February 2017, which triggered the recognition of a provision for the net cost of the surplus property at 1 Curzon Street until the end of the existing lease. The ultimate amount of the provision is dependent on the timing of any sub-letting arrangement and the associated terms agreed with prospective third parties. Based on management's expectations of future costs for the premises and potential rental income, and timings thereof, on 13 February 2017, the group recognised a provision of £12,148,000 whilst releasing the unamortised portion of the rent free period and a landlord contribution totalling £2,148,000. Since the middle of February 2017, management have altered their expected timings of a potential sub-let; this has led to a further charge of £3,807,000 being recognised. The group utilised £2,264,000 (30 June 2016 and 31 December 2016: £nil) of the onerous lease provision during the period, being the payment of rent, rates and service charge.

Dilapidation provisions are calculated using a discounted cash flow model. During the six months ended 30 June 2017, dilapidation provisions decreased by £554,000 (30 June 2016: increased £306,000; 31 December 2016: increased £1,003,000). The group utilised £704,000 (30 June 2016 and 31 December 2016: £nil) of the dilapidations provision held for the surplus property at 1 Curzon Street during the period. The impact of discounting led to an additional £150,000 (30 June 2016: £306,000; 31 December 2016: £1,003,000) being provided for over the period.

Amounts payable after one year

Property-related provisions of £10,407,000 are expected to be settled within 19 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held. Provisions for deferred and contingent consideration in business combinations of £1,123,000 are expected to be settled within three years of the balance sheet date. Remaining provisions payable after one year are expected to be settled within three years of the balance sheet date.

12 Subordinated loan notes

	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	Audited 31 December 2016 £'000
Subordinated loan notes			
– face value	**20,000**	20,000	20,000
– carrying value	**19,643**	19,541	19,590

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

13 Long term employee benefits

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

	Unaudited 30 June 2017 % p.a.	Unaudited 30 June 2016 % p.a.	Audited 31 December 2016 % p.a.
Rate of increase in salaries	**n/a**	4.10	4.50
Rate of increase of pensions in payment:			
– Laurence Keen Scheme	**3.60**	3.40	3.60
– Rathbones 1987 Scheme	**3.40**	3.10	3.40
Rate of increase of deferred pensions	**3.50**	3.10	3.50
Discount rate	**2.75**	3.05	2.80
Inflation*	**3.50**	3.10	3.50

* Inflation assumptions are based on the Retail Prices Index

The assumed life expectations of members retiring, aged 65 were:

	Unaudited 30 June 2017		Unaudited 30 June 2016		Audited 31 December 2016	
	Males	Females	Males	Females	Males	Females
Retiring today	**23.7**	**25.6**	24.3	26.5	24.3	26.5
Retiring in 20 years	**25.4**	**27.4**	26.6	28.8	26.6	28.8

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

	Unaudited 30 June 2017		Unaudited 30 June 2016		Audited 31 December 2016	
	Rathbone 1987 Scheme £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Laurence Keen Scheme £'000
Present value of defined benefit obligations	**(165,322)**	**(12,937)**	(199,897)	(16,801)	(216,238)	(16,203)
Fair value of scheme assets	**146,218**	**12,023**	169,915	14,818	178,887	14,099
Total deficit	**(19,104)**	**(914)**	(29,982)	(1,983)	(37,351)	(2,104)

Following a consultation with members of the schemes, the decision was taken to close the scheme to future accrual and to break the link to salary in both schemes. This has resulted in a plan amendment gain of £5,523,000 being recognised in operating income.

The group made special contributions into its pension schemes of £1,750,000 during the period (30 June 2016: £1,936,000; 31 December 2016: £2,936,000).

14 Share capital and share premium

The following movements in share capital occurred during the period:

	Number of shares	Exercise price pence	Share capital £'000	Share premium £'000	Total £'000
At 1 January 2016	48,134,286		2,407	97,643	100,050
Shares issued:					
– in relation to business combinations	37,898	1,705.0	2	644	646
– to Share Incentive Plan	104,667	1,968.0 – 2,039.0	5	2,069	2,074
– to Save As You Earn scheme	102,319	934.0 – 1,641.0	5	1,104	1,109
At 30 June 2016 (unaudited)	48,379,170		2,419	101,460	103,879
Shares issued:					
– to Share Incentive Plan	65,510	1,934.0 – 2,264.0	4	1,190	1,194
– to Save As You Earn scheme	13,789	934.0 – 1,641.0	1	166	167
– on placing	2,224,210	1,710.0	111	36,830	36,941
Own shares sold	–	1,754.0 – 1,949.0	–	345	345
At 31 December 2016 (audited)	**50,682,679**		**2,535**	**139,991**	**142,526**
Shares issued:					
– to Share Incentive Plan	**76,983**	**1,784.0 – 2,429.0**	**4**	**1,475**	**1,479**
– to Save As You Earn scheme	**85,838**	**984.0 – 1,648.0**	**4**	**1,243**	**1,247**
– to Employee Benefit Trust	**397,761**	**5.0**	**19**	**–**	**19**
At 30 June 2017 (unaudited)	**51,243,261**		**2,562**	**142,709**	**145,271**

At 30 June 2017, the group held 672,909 own shares (30 June 2016: 376,273; 31 December 2016: 336,987).

15 Financial instruments

The table below analyses the group's financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

At 30 June 2017 (unaudited)	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	**2,513**	**–**	**–**	**2,513**
– money market funds	**–**	**124,287**	**–**	**124,287**
	2,513	**124,287**	**–**	**126,800**

At 30 June 2016 (unaudited)	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	1,082	–	–	1,082
– money market funds	–	83,623	–	83,623
	1,082	83,623	–	84,705

At 31 December 2016 (audited)	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Available for sale securities:				
– equity securities	1,864	–	–	1,864
– money market funds	–	103,557	–	103,557
	1,864	103,557	–	105,421

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no transfers between levels during the period.

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

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

- Held to maturity debt securities comprise bank and building society certificates of deposit, which have fixed coupons. The fair value of debt securities at 30 June 2017 was £592,696,000 (30 June 2016: £727,395,000; 31 December 2016: £704,815,000) and the carrying value was £590,005,000 (30 June 2016: £725,000,000; 31 December 2016: £700,000,000). Fair value for held to maturity assets is based on market bid prices and hence would be categorised as level 1 within the fair value hierarchy.
- Subordinated loan notes (note 12) comprise Tier 2 loan notes issued in 2015. The fair value of the loan notes at 30 June 2017 was £20,604,000 (30 June 2016: £20,301,000; 31 December 2016: £19,578,000) and the carrying value was £19,643,000 (30 June 2016: £19,541,000; 31 December 2016: £19,590,000). Fair value of the loan notes is based on discounted future cash flows using current market rates for debts with similar remaining maturity and hence would be categorised as level 2 within the fair value hierarchy.

16 Contingent liabilities and commitments

(a) Indemnities are provided in the normal course of business to a number of directors and employees who provide tax and trust advisory services in connection with them acting as trustees/directors of client companies and providing other services.

(b) Capital expenditure authorised and contracted for at 30 June 2017 but not provided for in the condensed consolidated interim financial statements amounted to £2,074,000 (30 June 2016: £434,000; 31 December 2016: £4,430,000).

The contractual amounts of the group's commitments to extend credit to its clients are as follows:

	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	Audited 31 December 2016 £'000
Guarantees	**117**	–	117
Undrawn commitments to lend of 1 year or less	**22,644**	22,146	25,661
Undrawn commitments to lend of more than 1 year	**5,204**	–	5,981
	27,965	22,146	31,759

The fair value of the guarantees is £nil (30 June 2016 and 31 December 2016: £nil).

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

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

17 Consolidated interim statement of cash flows

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

	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	Audited 31 December 2016 £'000
Cash and balances at central banks	**1,480,932**	960,115	1,075,673
Loans and advances to banks	**147,714**	105,629	83,844
Available for sale investment securities	**124,287**	83,623	103,557
	1,752,933	1,149,367	1,263,074

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

Cash flows arising from issue of ordinary shares comprise:

	Unaudited Six months to 30 June 2017 £'000	Unaudited Six months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
Share capital issued (note 14)	**27**	12	128
Share premium on shares issued (note 14)	**2,718**	3,817	42,348
Shares issued in relation to share-based schemes for which no cash consideration was received	**(437)**	(1,043)	(1,631)
Shares issued in relation to business combinations	**–**	–	(646)
	2,308	2,786	40,199

18 Related party transactions

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

Dividends totalling £204,000 were paid in the period (six months ended 30 June 2016: £122,000; year ended 31 December 2016: £302,000) in respect of ordinary shares held by key management personnel.

As at 30 June 2017, the group had provided interest-free season ticket loans of £4,000 (30 June 2016: £3,000; 31 December 2016: £6,000) to key management personnel.

At 30 June 2017, key management personnel and their close family members had gross outstanding deposits of £4,252,000 (30 June 2016: £4,104,000; 31 December 2016: £5,464,000) and gross outstanding loans of £723,000 (30 June 2016: £949,000; 31 December 2016: £959,000), which were made on normal business terms. A number of the company's directors and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates.

One group subsidiary, Rathbone Unit Trust Management, has authority to manage the investments within a number of unit trusts. Another group company, Rathbone Investment Management International, acted as investment manager for a protected cell company offering unitised private client portfolio services. During the first half of 2017, the group managed 25 unit trusts, Sociétés d'investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (six months ended 30 June 2016: 25 unit trusts and OEICs; year ended 31 December 2016: 27 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:

	Unaudited Six months to 30 June 2017 £'000	Unaudited Six months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
Total management fees	**16,592**	12,856	27,783

	Unaudited Six months to 30 June 2017 £'000	Unaudited Six months to 30 June 2016 £'000	Audited Year to 31 December 2016 £'000
Management fees owed to the group	**2,931**	2,183	2,557
Holdings in unit trusts (note 15)	**2,513**	1,082	1,864
	5,444	3,265	4,421

Total management fees are included within 'fee and commission income' in the consolidated interim 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 interim balance sheet. The maximum exposure to loss is limited to the carrying amount on the balance sheet as disclosed above.

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

19 Interest in unconsolidated structured entities

As described in note 18, at 30 June 2017, the group owned units in collectives managed by Rathbone Unit Trust Management with a value of £2,513,000 (30 June 2016: £1,082,000; 31 December 2016: £1,864,000), representing 0.05% (30 June 2016: 0.03%; 31 December 2016: 0.05%) of the total value of the collectives managed by the group. These assets are held to hedge the group's exposure to deferred remuneration schemes for employees of Unit Trusts.

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

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

20 Events after the balance sheet date

An interim dividend of 22.0p per share was declared on 24 July 2017 (see note 6).

There have been no other material events occurring between the balance sheet date and 24 July 2017.

Regulatory capital

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

Regulatory own funds

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

	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	Unaudited 31 December 2016 £'000
Share capital and share premium	**145,271**	103,880	142,526
Reserves	**188,586**	206,331	188,530
Less:			
– own shares	**(5,344)**	(6,561)	(6,243)
– intangible assets (net of deferred tax)	**(162,589)**	(169,582)	(166,414)
Total Common Equity Tier 1 capital	**165,924**	134,068	158,399
Tier 2 capital	**16,498**	15,456	15,804
Total own funds	**182,422**	149,524	174,203

Own funds requirements

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

Pillar 1 – minimum requirement for capital

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

At 30 June 2017, the group's risk-weighted assets were £911,163,000 (30 June 2016: £837,975,000; 31 December 2016: £892,650,000).

Pillar 2 – supervisory review process

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

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

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

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

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

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

Capital conservation buffer (CCB)

The CCB is a general buffer of 2.5% of risk-weighted assets designed to provide for losses in the event of a stress and is being phased in from 1 January 2016 to 1 January 2019. As at 30 June 2017, the buffer rate was 1.25% of risk-weighted assets. The CCB must be met with Common Equity Tier 1 capital.

Countercyclical capital buffer (CCyB)

The CCyB is time-varying and is designed to act as an incentive for banks to constrain credit growth in times of heightened systemic risk. The amount of the buffer is determined by reference to rates set by the Financial Policy Committee (FPC) for individual countries where the group has credit exposures. The buffer rate 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 exposures, results in an overall rate of 0.02% of risk-weighted assets for the group as at 30 June 2017. The FPC has announced that the rate will increase to 0.5%, with binding effect from 27 June 2018. Absent a material change in the outlook, it expects to increase the rate to 1.0% with effect from November 2018. The CCyB must be met with Common Equity Tier 1 capital.

PRA buffer

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

The group's own funds requirements were as follows:

	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	Unaudited 31 December 2016 £'000
Own funds requirement for credit risk	**38,729**	36,630	36,859
Own funds requirement for market risk	**–**	–	389
Own funds requirement for operational risk	**34,164**	30,407	34,164
Pillar 1 own funds requirement	**72,893**	67,037	71,412
Pillar 2A own funds requirement	**28,105**	27,285	27,898
Total Pillar 1 and 2A own funds requirement	**100,998**	94,322	99,310
CRD IV buffers:			
– capital conservation buffer (CCB)	**11,390**	5,237	5,579
– countercyclical capital buffer (CCyB)	**182**	754	357
Total Pillar 1 and 2A own funds requirement and CRD IV buffers	**112,570**	100,313	105,246

Statement of directors' responsibilities in respect of the interim statement

Confirmations by the board

We confirm to the best of our knowledge that:

– the condensed set of financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;

– the interim management report includes a fair view of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Going concern basis of preparation

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

Group companies are regulated by the PRA and FCA and perform annual capital adequacy assessments, which include the modelling of certain extreme stress scenarios. The group publishes Pillar 3 disclosures annually on its website, which provide further detail about its regulatory capital resources and requirements. During the first half of 2017, and as at 30 June 2017, the group was primarily equity-financed, with a small amount of gearing in the form of the Tier 2 debt.

In 2017, the group has continued to grow client funds under management, both organically and through acquisition, and the group remains profitable. The directors believe that the company remains well-placed to manage its business risks successfully, despite an uncertain economic and political backdrop.

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

By order of the board

Philip Howell
Chief Executive

24 July 2017

Independent review report to Rathbone Brothers Plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 as set out on pages 6 to 25, which comprises the consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity, consolidated interim balance sheet, consolidated interim statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA'). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and the DTR of the UK FCA.

Nicholas Edmonds
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square, London E14 5GL

24 July 2017

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Rathbones
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