Rathbones
Look forward

# Rathbone Brothers Plc
Interim statement 2020

# Contents



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

As at 30 June 2020, Rathbones managed £49.4 billion of client funds, of which £41.4 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.

**Paul Stockton**
Chief Executive

**Jennifer Mathias**
Finance Director

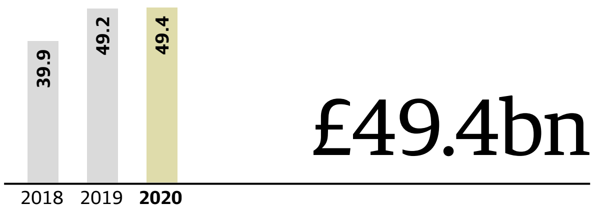
28 July 2020

# Half year highlights

### Financial highlights as at 30 June 2020

Funds under management and administration (FUMA) (£bn)

As at 30 June 2020 (31 December 2019: £50.4bn)




Profit before tax (£m)

Half year 2020


Underlying profit before tax[1] (£m)

Half year 2020


Basic earnings per share (p)

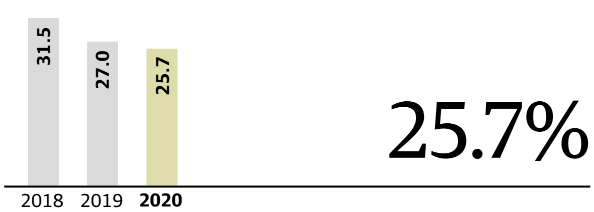
Half year 2020


Underlying earnings per share[1] (p)

Half year 2020


Underlying operating margin[2] (%)

Half year 2020




Dividends paid and proposed per share (p)

Half year 2020


1. Underlying profit before tax and earnings per share exclude costs relating to the acquisition of Barclays Wealth's Personal Injury and Court of Protection business in the period, the acquisition of Speirs & Jeffrey in 2018, and charges in relation to client relationships and goodwill. A reconciliation between the underlying profit before tax and profit before tax is shown in note 10, and an explanation of the group's rationale for using these underlying measures is given on page 27 of the 2019 report and accounts.
2. Underlying profit before tax as a percentage of underlying operating income.

# Interim management report

Mark Nicholls
Chairman

Paul Stockton
Chief Executive

## Managing through the pandemic and investment market volatility

The first half of 2020 will always be remembered for the significant impact that the COVID-19 pandemic had on many businesses. We successfully prioritised employee well-being and serving our clients in a period that was challenging in many ways. Throughout the period Rathbones operated effectively, which was of critical importance to clients at a time of heightened market volatility.

The first quarter of 2020 reflected the weak investor sentiment that was driven by the negative impact of lockdown measures on global economies to contain the spread of COVID-19. As governments responded, investor sentiment improved during the second quarter as countries emerged cautiously from lockdown and we saw the beginning of a return to improved economic activity. The FTSE 100 index ended the first half at 6170, decreasing by 18.2% from the 7542 index level at 31 December 2019.

The longer-term consequences from the pandemic remain far from certain, and we expect market volatility to persist into the second half. Despite this ongoing uncertainty we will continue to invest and make productivity improvements to deliver on our strategic priorities and emerge from the crisis a stronger and more agile company.

## Resilient operating margin and a strong balance sheet

Total FUMA were £49.4 billion at 30 June 2020, down 2.0% from £50.4 billion at 31 December 2019 and up 0.4% from £49.2 billion at 30 June 2019.

Operating income totalled £179.0 million in the first half of 2020, 3.6% ahead of the prior year (30 June 2019: £172.7 million).

Operating income in Investment Management totalled £158.7 million in the first six months of 2020, an increase of 2.3% on the prior year. Investment Management fee income of £106.4 million in the first half of 2020 was 3.8% lower than the £110.6 million recorded in the prior year, reflecting lower market levels at quarterly billing dates. The average of the FTSE 100 on quarterly billing dates in the first half of 2020 was 22.1% lower than in the first half of 2019. Commission income of £37.3 million was 34.7% ahead of the first six months of 2019, driven by continuing high trading volumes in a particularly volatile second quarter of 2020. We expect commission income to remain seasonally weighted to the first half of the year, being correlated to periods of increased market volatility. Net interest income of £4.8 million in the first half was 36.8% lower than the corresponding six-month period in 2019, reflecting UK base rate reductions in March 2020. Fees from advisory and other services grew encouragingly to £10.2 million during the first half of 2020, up 9.7% on the prior year (30 June 2019: £9.3 million).

Total income in our Unit Trusts business increased significantly by 16.0% to £20.3 million (30 June 2019: £17.5 million) as growth in funds, driven by strong net inflows and market outperformance more than offset the smoothed impact of market movements on fees which are calculated daily.

Profit before tax for the six months to 30 June 2020 of £27.3 million (30 June 2019: £20.0 million) reflects a number of expected items, primarily in relation to the acquisition of Speirs & Jeffrey. Acquisition costs in relation to this totalled £11.5 million in the period (30 June 2019: £17.8 million) of which £10.0 million was in relation to deferred consideration payments, consistent with the £18 million disclosed in our 2019 preliminary results as our expectation for full year 2020. Further detail on acquisition-related costs can be found in note 6. Basic earnings per share were 36.1p (30 June 2019: 25.8p).

Underlying profit before tax of £46.0 million at 30 June 2020 was marginally below the £46.6 million reported for the period a year ago. Growth in operating income of 3.6% was offset by fixed and variable staff cost increases of 3.9% while other operating expenses increased by 9.2%, largely reflecting a £2.1 million increase in Financial Services Compensation Scheme ('FSCS') levies during the first six months of 2020. The full year FSCS cost is currently expected to be approximately £6.1 million (31 December 2019: £4.5 million), however this is subject to any supplementary levies from the FSCS during the second half of the year. This unwelcome increase offset £2.1 million of cost synergies relating to Speirs & Jeffrey achieved during the first half of the year (full year 2020 synergies of £4.5 million expected). We expect to realise the remainder of the synergies in the second half. We continue to maintain a strict discipline on discretionary costs, recognising ongoing market uncertainty for the second half of the year.

The underlying operating margin at 30 June 2020 was 25.7% (30 June 2019: 27.0%). Underlying profit after tax was £36.2 million in the first six months of the year (30 June 2019: £38.1 million). Accordingly, underlying earnings per share of 67.5p decreased from the 71.4p recorded in the first six months of 2019. A full reconciliation between profit before tax and underlying profit before tax can be found in note 10.

Our balance sheet remains robust with a consolidated Common Equity Tier 1 ratio of 21.3% at 30 June 2020 (31 December 2019: 22.0%; 30 June 2019: 20.5%) and a consolidated leverage ratio of 6.8% at 30 June 2020 (31 December 2019: 8.3%; 30 June 2019: 8.6%). The decrease in the consolidated leverage ratio from 31 December 2019 to 30 June 2020 was due to total assets increasing by £530 million, largely reflecting an increase in client deposits, while tier 1 capital remained broadly unchanged. Our capital surplus of own funds (excluding year-to-date post-tax profits) over our regulatory capital requirement was £98.2 million at 30 June 2020 (£104.2 million at 31 December 2019). Net retirement benefit obligations increased to £16.4 million at 30 June 2020 from the £8.0 million recorded at 31 December 2019, largely reflecting the reduction in bond yields which reduced the discount rate applied in calculating the present value of future pension payments.

The carrying value of the 10-year subordinated loan notes at 30 June 2020 was £20.0 million (31 December 2019: £19.9 million). The loan notes are repayable in August 2025 with a call option to redeem the loan notes in August 2020 and annually thereafter. In light of current and anticipated market conditions, we do not expect to exercise the associated call option this year.

The Investment Management loan book was £125.9 million at 30 June 2020, a small decrease on the £132.0 million at 31 December 2019. Loans are fully secured against underlying client investment portfolios. The IFRS 9 impairment loss allowance held against the group's treasury and loan books at the end of the first half was £1.0 million, compared to £0.3 million at the end of 2019. The company continues not to experience any defaults on client loans.

## Maintaining our interim dividend level

We have maintained our interim dividend at 25p (30 June 2019: 25p), reflecting our confidence in our medium-term prospects and the strength of our balance sheet. The record date will be 4 September 2020 and the dividend will be paid on 6 October 2020. The interim dividend is covered 2.7 times by underlying earnings per share and 1.4 times by basic earnings per share.

## Supporting our clients and employees

Our operational resilience has always been seen as critical to our reputation and our ability to attract and retain high-quality employees who remain productive and engaged. In recent years, our continued investment in the technology that has now enabled our employees to work remotely has proved invaluable. As lockdown restrictions were imposed, the business was able to manage a staged transfer to a remote working operating model very rapidly, ensuring that our employees could be kept as safe as possible and maintaining a full service for our clients.

Following the full implementation of lockdown measures in the UK during March, we closed all offices, aside from Liverpool, and were able to mobilise all staff to work successfully from home. Our thanks go to the individuals who made that happen, and to the key employees that remained office-based to continue essential functions. We have not made use of any government support schemes and none of our staff have been furloughed or been made redundant as a result of the crisis.

Client engagement and communication through digital channels increased significantly, providing reassurance to clients throughout the period of market volatility that followed. Increasing the frequency of market updates to clients and distribution channels, often accompanied by relevant video material and individual calls or video meetings, has proved successful. We have also made several operational process efficiencies and enhancements that have improved client experience and support greater productivity. Our revised operating model allowed us to streamline account opening and amendments, anti-money laundering verifications, asset and cash transfers and payments whilst carefully managing operational risk. This work accelerated previous plans and will provide a strong foundation for further digitalisation and process improvement.

We have continued most of our planned training activity for employees, supplementing this with dedicated well-being initiatives and additional communications to help ensure that they all remain well connected and productive. Regular surveys have helped the executive management team remain informed and able to react to any issues or well-being matters that develop. We will retain our flexible approach to returning to work, keeping our key priorities of employee well-being and delivering high client service standards at the forefront. We continue to pursue a number of targeted initiatives to promote greater diversity and inclusion in our workforce.

We recognise the challenging time the communities in which we operate are facing and therefore Rathbones employees have chosen to support two charities during the pandemic by raising funds for Mental Health UK and the Trussell Trust, with Rathbones committed to matching employee fundraising up to a total of £100,000. Employees are also given three paid volunteering days per year, which can be taken flexibly, to support their local communities. The Rathbones Foundation also continues to support local charities by donating up to £200,000 per year through regionally focused activities.

## Pursuing our strategic growth goals

In October 2019 we presented our medium-term organic growth strategy, defining our purpose to think, act and invest responsibly with the ambition of being recognised as the UK's most responsible wealth manager. Underpinning this is a clear plan that focuses on enriching the client and adviser proposition and experience, supporting and delivering growth, inspiring our people and operating more efficiently. The pandemic has inevitably had some impact on the speed of some operational initiatives but has also helped accelerate others.

Plans to increase the number of investment professionals to support our growth plans are progressing well with many high calibre candidates content to be 'virtually' recruited and very committed to pursuing a career with us. We added 11 investment professionals in the first half and expect this rate to continue during the second half. We also expect to recruit up to 10 graduates into our academy this year.

We continue to foster closer collaboration across Rathbones to deliver services to clients, rolling out a 'blueprint for growth initiative' which will train selected investment managers to set achievable growth targets and provide professional training to build trusted relationships by offering the benefits of the totality of our services for clients.

In our intermediated distribution team, each of our six regions now has a Discretionary Fund Management ('DFM') distribution specialist that oversees the provision of a new, integrated proposition, to IFA firms that distinguishes between an 'adviser as adviser' and 'adviser as introducer' relationship. We have also developed a more efficient onboarding process for new 'adviser as adviser' relationships, including an improved level of initial and ongoing support to advisers such as due diligence, risk mapping, workshops, collateral and investment governance. We have onboarded 19 new adviser firms during the first six months of the year using our new integrated approach (41 since launch in 2019). At 30 June 2020 the amount of FUMA linked to an adviser (including discretionary and non-discretionary investment management as well as execution-only funds) was £9.0 billion (30 June 2019: £8.8 billion).

In specialist markets, our newly formed charity team based in Scotland were successful in securing mandates in the first half which was an important test of our proposition and investment process. Thanks to close collaboration between colleagues across front office, middle office and external parties, assets were seamlessly transferred by the end of April.

In early April, we successfully migrated all client assets following the acquisition of Barclays Wealth's Court of Protection and Personal Injury business. The business added £440 million of assets in the first half, increasing the size of our Court of Protection and Personal Injury business to £803 million at 30 June 2020. Ten new colleagues were welcomed to the firm using remote on-boarding and training processes.

We have continued to invest to build capability and develop targeted Environmental, Social and Governance ('ESG') propositions across the firm, working to embed a common approach to ESG investing across the wider group that complements the specialist offering delivered by Rathbone Greenbank. During the first six months of 2020 we have engaged with 110 companies on ESG matters compared to 70 during full year 2019. We are also a signatory to the Institutional Investors Group on Climate Change letter supporting the UK 'build back better' campaign and a letter to the EU heads of state and government calling for a sustainable recovery in the EU. In addition, we were one of over 200 signatories to the letter to the UK Prime Minister in support of a green coronavirus recovery plan. FUMA in Rathbone Greenbank grew 6.3% to £1.7 billion at 30 June 2020 (£1.6 billion at 31 December 2019), while our Ethical Bond Fund increased from £1.5 billion at 31 December 2019 to £1.7 billion at 30 June 2020.

Both the ESG and Court of Protection and Personal Injury sectors have significant potential to grow.

We will continue to innovate in how we bring our services to market. Over this period, virtual marketing and networking events with external partners have raised our profile amongst potential new clients and will be an approach we will continue to adopt in combination with individual meetings. Video-based investment market and other educational material have been particularly well received by our clients, and we will continue to promote these across websites and social media platforms.

## Building our financial advice capability

The benefit of financial advice to clients is even more important during times of market turbulence and dislocation, with both the demand and the need for advice increasing. Our strategy continues to place considerable importance on the financial advice market which we access in several ways. In addition to the important distribution relationships we have, working directly with c. 12,000 IFAs to provide DFM investment services for them and their clients, we operate both an independent IFA network, Vision Independent Financial Planning ('Vision'), and an in-house capability, Rathbones Financial Planning ('RFP'). The combination of Vision and RFP represents a strong proposition for clients, providing them with access to 152 financial planners advising over £3.1 billion of client funds. Advisers have access to our single strategy funds, multi-asset funds and DFM service range providing a considerable depth to our investment offering which, combined with service quality, was recognised in Defaqto's Annual Survey published in April 2020.

Vision focuses on the mass affluent and high net worth segment of the market and at 30 June 2020 had assets totalling £1.9 billion on its DFM panel (30 June 2019: £1.8 billion) and 131 independent financial advisers (30 June 2019: 124). Vision continues to attract quality advisers and seeks to recruit an average of 10 additional IFAs per year.

RFP continues to focus on supporting existing relationships between investment managers and their clients and forging new client relationships via external professional partners. RFP advisers complement and support our discretionary investment services to meet client needs where appropriate. Advice is delivered on a one-off or ongoing basis and is typically available to clients with more complex financial situations or decisions to make. There are currently 21 advisers (30 June 2019: 19) and we continue to invest in this area.

## Delivering on other projects that underpin the strategy

We have made good strategic progress during the first half of the year, despite the challenging circumstances. In 2020 we have focused on projects that improve the client experience and client reporting, enhance and automate our investment risk monitoring and improve our digital capability, including the quality and integration of data across different systems. Work on these projects will continue in the second half.

In order to provide clients with more holistic communication and online access options we are building a new platform which will be known as 'MyRathbones'. This is the first stage of a programme of digital enhancements to Rathbones' client proposition and is designed to augment our existing services. Clients will benefit from improved digital access to Rathbones from a range of devices and will be protected by industry standard online security. We will continue to develop the 'MyRathbones' platform by adding additional features and enhancing its capabilities; we expect feedback from our clients and advisers to play a significant role in how we define and prioritise future developments.

After experiencing some justifiable delays because of the COVID-19 pandemic, we resumed the pilot of our new investment solution for clients known as Rathbone Select Portfolio ('RSP'). RSP is a cost-effective and compelling investment solution aimed at clients with a minimum investment of £15,000 for a term of at least three years, where a bespoke discretionary investment management service may not be appropriate. It is a self-select / execution only solution for clients who feel comfortable choosing an investment strategy to meet their investment objectives and risk / return profile. Clients can choose from six risk-rated investment strategies. Each strategy is delivered through a single Rathbone Multi-Asset Portfolio fund, actively managed by a Rathbone Unit Trust Management fund management team who follow our firm-wide investment philosophy. Clients will have the flexibility to make additions to or withdrawals from their portfolios, switch between investment strategies as circumstances change, have direct online access to information about their performance and the underlying investments in their portfolios as well as access to a dedicated RSP team based in the UK. Subject to a successful pilot, we expect to start rolling out RSP during the third quarter of 2020.

Whilst much of our strategic focus is on organic growth, part of our strategy has been, and will continue to be, acquiring businesses that fit our culture. We will continue to monitor opportunities to build the business inorganically, recognising the importance of cultural fit and the importance of building scale.

## Business Performance

### Investment Management

Total FUMA in our Investment Management business were £41.4 billion, down 2.6% from the £42.5 billion we reported a year ago and largely reflecting lower market levels. The average of the FTSE 100 on quarterly billing dates in the first half of 2020 was 22.1% lower than in the first half of 2019, while the MSCI PIMFA Private Investor Balanced Index was 8.6% lower than the prior year.

Total net inflows were £0.8 billion in the first six months of 2020 compared to £0.1 billion in the first six months of 2019. Net organic inflows in the first half totalled £0.3 billion (30 June 2019: net outflows of £0.1 billion). Gross organic inflows were 9.1% ahead of the prior year against a challenging market backdrop while outflows were 10.3% lower. Inorganic inflows during the first half of 2020 were £0.5 billion, driven by the acquisition of the Barclays Wealth Court of Protection and Personal Injury business (30 June 2019: £0.2 billion).

Net organic annualised growth in the first half was 1.4% (30 June 2019: 0.2%) benefiting from charity mandate wins in the second quarter, while outflows were driven by the partial withdrawal of previously reported short-term mandates, the re-balancing of certain pension scheme portfolios in the first quarter and the loss of an execution-only non-fee paying mandate in the second quarter.

Our Investment Management business has been shortlisted for the following Citywealth awards: Private Client Investment Team of the Year, Charity Investment Team of the Year, Impact/ESG Manager of the Year and Industry sustainability. Our charities team has also been shortlisted for the Charity Times Better Society 'Green Finance' award, while our FTSE350 modern slavery engagement has been shortlisted for the 'Stewardship Project of the Year' for the PRI 2020 awards.

### Unit Trusts

Our funds business has continued its strong momentum with funds under management of £8.0 billion at 30 June 2020, up 19.4% from £6.7 billion a year ago. Despite a challenging first half and a volatile market backdrop, the business has attracted substantial net inflows of £555 million for the first six months of the year, 68.7% ahead of the same period in 2019 (30 June 2019: £329 million). This represents an annualised net organic growth rate of 14.9% (30 June 2019: 11.7%).

There were strong net inflows into the Ethical Bond Fund, Global Opportunities Fund and the High-Quality Bond Fund. Net flows into our Multi-Asset portfolios were also strong, particularly into the Strategic Growth Fund.

During June 2020, we added two new funds to our Rathbone Multi-Asset Portfolio (RMAP) range, the Rathbone Multi-Asset Defensive Growth Portfolio and the Rathbone Multi-Asset Dynamic Growth Portfolio, providing advisers with cost-effective access to target return profiles for their clients, which complement the existing range of multi-asset portfolio funds. We now have six different actively managed investment strategies within our RMAP suite, alongside the RMAP Total Return, Strategic Income, Strategic Growth and Enhanced Growth portfolio funds. These strategies now offer a comprehensive, risk-rated market solution for the majority of clients and will support our RSP solution. Our multi-asset range now manages £1.3 billion (30 June 2019: £1.2 billion) and continues to grow.

According to the Pridham Report, which monitors fund sales and asset trends in the UK, Rathbones was ranked in tenth position for overall net retail sales during the first quarter of 2020, maintaining its top 10 position. Our Ethical Bond Fund won a Morningstar UK award for the best bond fund while the Strategic Growth Fund was awarded the City of London Wealth Management award for Best Fund 2020. We won the Professional Paraplanner award for Best Outsourced Investment Firm 2020 and also won Best Group for the Citywire UK awards 2020 in the Sterling Strategic Bond category. James Thomson, manager of the Rathbone Global Opportunities Fund, has been shortlisted for Best Alpha Manager (Global Developed Equities) in the FE fundinfo annual FE Alpha Manager Awards, 2020. These awards recognise consistent, strong outperformance.

## Going concern

As set out in the statement of directors' responsibilities on page 30 of the condensed consolidated interim financial statements, the directors believe that the group is well positioned to manage its business risks successfully, despite an uncertain backdrop. The group's financial projections, and the capital adequacy assessment, which is required to apply extreme stress scenarios to these projections, provide comfort that the group has adequate financial and regulatory resources to continue in operational existence for the foreseeable future. These forecasts have been prepared taking account of the potential impacts of the COVID-19 pandemic on market volatility, net organic growth and additional costs of maintaining operational resilience. Accordingly, the directors continue to adopt a going concern basis for the preparation of the condensed consolidated interim financial statements. In forming their view, the directors have considered the group's prospects for a period exceeding 12 months from the date the condensed consolidated interim financial statements are approved.

## Principal risks and uncertainties

While our people, operations and infrastructure have adapted and responded well to the COVID-19 pandemic crisis, the board recognises that the impact and priority of the principal risks and uncertainties which may have a material effect on the group's performance have, in the short-term, changed from those identified in the strategic report and group risk committee report in our 2019 annual report and accounts (pages 4 to 11 and pages 80 to 82 respectively). The firm has therefore focused on ensuring our operations are resilient, our staff are protected and the potential disruption to our business model and services to clients remains low during the rest of this year. However, future phases of the pandemic are uncertain and could result in a range of scenarios with a variety of outcomes. We remain alert to the evolving cyber threat landscape during this crisis, ensuring that our processes continue to protect our clients' assets and we continue to remain attentive to the investment performance we are delivering to our clients.

The board recognises and continues to monitor the UK government's trade negotiations with the EU and assess the risk of a hard Brexit. Our exposure to any potential disruption from this scenario remains low as we have no operations in other EU countries and no material dependencies on goods, services, or people from other EU countries. We have changed the basis by which our Unit Trusts business distributes its funds in Europe. We will, however, continue to monitor developments closely and we will act as necessary.

## Regulation

Our regulators are responding to the COVID-19 pandemic, addressing Brexit and issuing guidance on a wide range of topics. The FCA and PRA are also promoting climate change risk as a key area of focus. We are tracking regulatory developments carefully during this period of transition on a range of subjects and have launched our initiatives, where needed, in response.

## Executive team

Our plans to bring new talent into the executive team are progressing well. Following Jennifer Mathias' appointment last year, Andy Brodie joined as Chief Operating Officer in April and Kathleen Jones joined the executive team as interim Chief People Officer, in June, to lead an important Human Resources agenda. This team brings a wealth of experience in the financial services sector and is working well together to deliver our strategic plan.

## Outlook for the remainder of the year

Our business model has proven to be resilient, agile and adaptable throughout the duration of the COVID-19 pandemic, with little to no impact on business continuity. Whilst we expect investment markets to remain volatile and interest rates to remain lower for some time to come, our balance sheet is robust with a strong capital position. We are well placed to continue delivering our organic growth strategy, balancing investment in the business with prevailing market conditions, maintaining strict cost discipline and identifying inorganic growth opportunities that fit our culture.

Mark Nicholls
Chairman

Paul Stockton
Chief Executive

28 July 2020

# Condensed consolidated interim financial statements



**Further information**

# Consolidated interim statement of comprehensive income

for the six months ended 30 June 2020

| | Note | **Unaudited Six months to 30 June 2020 £'000** | Unaudited Six months to 30 June 2019 £'000 | Audited Year to 31 December 2019 £'000 |
|---|---|---|---|---|
| Interest and similar income | | **9,449** | 13,631 | 28,553 |
| Interest expense and similar charges | | **(4,649)** | (5,985) | (12,141) |
| **Net interest income** | | **4,800** | 7,646 | 16,412 |
| Fee and commission income | | **184,126** | 174,950 | 352,519 |
| Fee and commission expense | | **(11,816)** | (11,348) | (23,547) |
| **Net fee and commission income** | | **172,310** | 163,602 | 328,972 |
| Net trading income | | **(10)** | 165 | 170 |
| Other operating income | | **1,949** | 1,318 | 2,517 |
| **Operating income** | | **179,049** | 172,731 | 348,071 |
| Charges in relation to client relationships and goodwill | 14 | **(7,038)** | (7,795) | (15,964) |
| Acquisition-related costs | 6 | **(11,651)** | (18,857) | (33,057) |
| Other operating expenses | | **(133,079)** | (126,103) | (259,398) |
| **Operating expenses** | | **(151,768)** | (152,755) | (308,419) |
| **Profit before tax** | | **27,281** | 19,976 | 39,652 |
| Taxation | 8 | **(7,864)** | (6,214) | (12,729) |
| **Profit for the period attributable to equity holders of the company** | | **19,417** | 13,762 | 26,923 |
| | | | | |
| **Other comprehensive income:** | | | | |
| **Items that will not be reclassified to profit or loss** | | | | |
| Net remeasurement of defined benefit liability | | **(10,292)** | (285) | 310 |
| Deferred tax relating to the net remeasurement of defined benefit liability | | **2,734** | 48 | (53) |
| | | | | |
| **Other comprehensive income net of tax** | | **(7,558)** | (237) | 257 |
| **Total comprehensive income for the period net of tax attributable to equity holders of the company** | | **11,859** | 13,525 | 27,180 |
| | | | | |
| Dividends paid and proposed for the period per ordinary share | 9 | **25.0p** | 25.0p | 70.0p |
| Dividends paid and proposed for the period | | **14,338** | 14,019 | 37,714 |
| | | | | |
| Earnings per share for the period attributable to equity holders of the company: | 10 | | | |
| – basic | | **36.1p** | 25.8p | 50.3p |
| – diluted | | **34.7p** | 25.0p | 48.7p |

# Consolidated interim statement of changes in equity

for the six months ended 30 June 2020

| | Note | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Own shares £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2019 (restated) | | 2,760 | 205,273 | 56,785 | (32,737) | 232,059 | 464,140 |
| Profit for the period | | | | | | 13,762 | 13,762 |
| Net remeasurement of defined benefit liability | | | | | | (285) | (285) |
| Deferred tax relating to components of other comprehensive income | | | | | | 48 | 48 |
| Other comprehensive income net of tax | | – | – | – | – | (237) | (237) |
| Dividends paid | | | | | | (22,433) | (22,433) |
| Issue of share capital | 18 | 44 | 3,648 | 14,971 | | | 18,663 |
| Share-based payments: | | | | | | | |
| – value of employee services | | | | | | 5,301 | 5,301 |
| – cost of own shares acquired | | | | | (4,361) | | (4,361) |
| – cost of own shares vesting | | | | | 260 | (260) | – |
| – tax on share-based payments | | | | | | (89) | (89) |
| **At 30 June 2019 (unaudited)** | | 2,804 | 208,921 | 71,756 | (36,838) | 228,103 | 474,746 |
| Profit for the period | | | | | | 13,161 | 13,161 |
| Net remeasurement of defined benefit liability | | | | | | 595 | 595 |
| Deferred tax relating to components of other comprehensive income | | | | | | (101) | (101) |
| Other comprehensive income net of tax | | – | – | – | – | 494 | 494 |
| Dividends paid | | | | | | (13,526) | (13,526) |
| Issue of share capital | 18 | 14 | 2,018 | | | | 2,032 |
| Share-based payments: | | | | | | | |
| – value of employee services | | | | | | 14,086 | 14,086 |
| – cost of own shares acquired | | | | | (5,672) | | (5,672) |
| – cost of own shares vesting | | | | | 539 | (539) | – |
| – tax on share-based payments | | | | | | 72 | 72 |
| **At 31 December 2019 (audited)** | | **2,818** | **210,939** | **71,756** | **(41,971)** | **241,851** | **485,393** |
| Profit for the period | | | | | | **19,417** | **19,417** |
| Net remeasurement of defined benefit liability | | | | | | **(10,292)** | **(10,292)** |
| Deferred tax relating to components of other comprehensive income | | | | | | **2,734** | **2,734** |
| Other comprehensive income net of tax | | **–** | **–** | **–** | **–** | **(7,558)** | **(7,558)** |
| Dividends paid | | | | | | **(24,316)** | **(24,316)** |
| Issue of share capital | 18 | **50** | **2,171** | **–** | | | **2,221** |
| Share-based payments: | | | | | | | |
| – value of employee services | | | | | | **13,994** | **13,994** |
| – cost of own shares acquired | | | | | **(4,282)** | | **(4,282)** |
| – cost of own shares vesting | | | | | **165** | **(165)** | **–** |
| – tax on share-based payments | | | | | | **(208)** | **(208)** |
| **At 30 June 2020 (unaudited)** | | **2,868** | **213,110** | **71,756** | **(46,088)** | **243,015** | **484,661** |

# Consolidated interim balance sheet

as at 30 June 2020

| | Note | **Unaudited 30 June 2020 £'000** | Unaudited 30 June 2019 £'000 | Audited 31 December 2019 £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with central banks | | **2,303,875** | 1,271,512 | 1,932,997 |
| Settlement balances | | **178,416** | 126,509 | 52,520 |
| Loans and advances to banks | | **162,143** | 176,172 | 177,832 |
| Loans and advances to customers | 11 | **134,575** | 139,121 | 138,412 |
| Investment securities: | | | | |
| – fair value through profit or loss | | **109,874** | 126,308 | 105,967 |
| – amortised cost | | **647,068** | 917,098 | 600,261 |
| Prepayments, accrued income and other assets | | **94,394** | 93,462 | 95,390 |
| Property, plant and equipment | 12 | **14,841** | 15,713 | 15,432 |
| Right of use assets | 13 | **47,052** | 51,396 | 49,480 |
| Current tax asset | | **888** | – | – |
| Deferred tax asset | | **1,382** | 590 | 2,636 |
| Intangible assets | 14 | **236,553** | 235,653 | 227,807 |
| **Total assets** | | **3,931,061** | 3,153,534 | 3,398,734 |
| **Liabilities** | | | | |
| Deposits by banks | | **3** | – | 28 |
| Settlement balances | | **189,795** | 109,773 | 57,694 |
| Due to customers | | **3,071,196** | 2,382,588 | 2,668,645 |
| Accruals, deferred income and other liabilities | | **83,306** | 75,951 | 84,531 |
| Lease liabilities | | **58,492** | 62,840 | 61,004 |
| Current tax liabilities | | **–** | 5,205 | 4,766 |
| Provisions for liabilities and charges | 15 | **7,172** | 12,869 | 8,732 |
| Subordinated loan notes | 16 | **19,989** | 19,866 | 19,927 |
| Retirement benefit obligations | 17 | **16,447** | 9,696 | 8,014 |
| **Total liabilities** | | **3,446,400** | 2,678,788 | 2,913,341 |
| Equity | | | | |
| Share capital | 18 | **2,868** | 2,804 | 2,818 |
| Share premium | 18 | **213,110** | 208,921 | 210,939 |
| Merger reserve | 18 | **71,756** | 71,756 | 71,756 |
| Own shares | | **(46,088)** | (36,838) | (41,971) |
| Retained earnings | | **243,015** | 228,103 | 241,851 |
| **Total equity** | | **484,661** | 474,746 | 485,393 |
| **Total liabilities and equity** | | **3,931,061** | 3,153,534 | 3,398,734 |

The condensed consolidated interim financial statements were approved by the board of directors and authorised for issue on 28 July 2020 and were signed on its behalf by:

Paul Stockton
Chief Executive

Jennifer Mathias
Finance Director

Company registered number: 01000403

# Consolidated interim statement of cash flows

for the six months ended 30 June 2020

| | Note | Unaudited 30 June 2020 £'000 | Unaudited 30 June 2019 £'000 | Audited 31 December 2019 £'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before tax | | **27,281** | 19,976 | 39,652 |
| Change in fair value through profit or loss | | **(1,081)** | (323) | (410) |
| Net interest income | | **(4,800)** | (7,646) | (16,412) |
| Net impairment charges on loans and advances | | **749** | 37 | 103 |
| Net (release)/charge for provisions | 15 | **(507)** | 590 | 3,572 |
| Loss on disposal of property, plant and equipment | | **–** | – | 428 |
| Depreciation, amortisation and impairment | | **14,860** | 14,779 | 33,799 |
| Foreign exchange movements | | **(3,268)** | 299 | 2,152 |
| Defined benefit pension scheme charges | | **60** | 132 | 255 |
| Defined benefit pension contributions paid | | **(1,918)** | (1,918) | (3,128) |
| Share-based payment charges | | **12,640** | 18,339 | 31,012 |
| Interest paid | | **(3,592)** | (5,907) | (11,421) |
| Interest received | | **9,433** | 13,597 | 28,264 |
| | | **49,857** | 51,955 | 107,866 |
| Changes in operating assets and liabilities: | | | | |
| – net decrease/(increase) in loans and advances to banks and customers | | **62,236** | 29,838 | (31,076) |
| – net increase in settlement balance debtors | | **(125,896)** | (86,755) | (12,765) |
| – net decrease/(increase) in prepayments, accrued income and other assets | | **1,015** | (12,047) | (13,725) |
| – net increase in amounts due to customers and deposits by banks | | **402,526** | 156,561 | 442,646 |
| – net increase in settlement balance creditors | | **132,101** | 73,081 | 21,002 |
| – net (decrease)/increase in accruals, deferred income, provisions and other liabilities | | **(2,329)** | (4,532) | 2,802 |
| **Cash generated from operations** | | **519,510** | 208,101 | 516,750 |
| Tax paid | | **(11,047)** | (8,105) | (17,133) |
| **Net cash inflow from operating activities** | | **508,463** | 199,996 | 499,617 |
| **Cash flows from investing activities** | | | | |
| Purchase of property, equipment and intangible assets | | **(18,287)** | (5,142) | (17,705) |
| Proceeds from sale of property, plant and equipment | | **–** | – | (239) |
| Purchase of investment securities | | **(575,669)** | (538,442) | (754,958) |
| Proceeds from sale and redemption of investment securities | | **531,463** | 528,167 | 1,058,874 |
| **Net cash (used in)/generated from investing activities** | | **(62,493)** | (15,417) | 285,972 |
| **Cash flows from financing activities** | | | | |
| Net (repurchase)/issue of ordinary shares | 22 | **(2,061)** | (700) | (4,340) |
| Dividends paid | | **(24,316)** | (22,433) | (35,959) |
| Payment of lease liabilities | | **(2,513)** | (2,318) | (4,623) |
| Interest paid | | **(586)** | (586) | (1,171) |
| **Net cash used in financing activities** | | **(29,476)** | (26,037) | (46,093) |
| **Net increase in cash and cash equivalents** | | **416,494** | 158,542 | 739,496 |
| Cash and cash equivalents at the beginning of the period | | **2,148,033** | 1,408,537 | 1,408,537 |
| **Cash and cash equivalents at the end of the period** | 22 | **2,564,527** | 1,567,079 | 2,148,033 |

# Notes to the condensed consolidated interim financial statements

## 1 Basis of preparation

Rathbone Brothers Plc ('the company') is the parent company of a group of companies ('the group') that is a leading provider of high-quality, personalised investment and wealth management services for private clients, charities and trustees. This includes discretionary investment management, unit trusts, tax planning, trust and company management, pension advice and banking services. The products and services from which the group derives its revenues are described in 'Rathbones at a glance' on pages 8 to 9 of the annual report and accounts for the year ended 31 December 2019 and have not materially changed since that date.

These condensed consolidated interim financial statements, on pages 8 to 27, 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 2019, except as disclosed in note 2. The condensed consolidated interim financial statements should be read in conjunction with the group's audited financial statements for the year ended 31 December 2019, 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 2019 are not the group's statutory accounts for that financial year. The group's financial statements for the year ended 31 December 2019 have been reported on by its auditors and delivered to the Registrar of Companies. The report of the auditors on those financial statements was unqualified and did not draw attention to any matters by way of emphasis. It also did not contain a statement under section 498 of the Companies Act 2006.

### Developments in reporting standards and interpretations

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

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

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

#### Future new standards and interpretations

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the group has not early adopted the new or amended standards in preparing these condensed consolidated interim financial statements.

None of the standards not yet effective are expected to have a material impact on the group's financial statements.

## 2 Changes in significant accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the group's consolidated financial statements as at and for the year ended 31 December 2019.

## 3 Critical accounting judgments and key sources of estimation and uncertainty

In light of the COVID-19 pandemic, the group has reviewed the judgements and estimates that affect its accounting policies and amounts reported in its financial statements.

Although these are unchanged from those reported in the group's financial statements for the year ended 31 December 2019, the group continue to closely monitor the valuation of the earn out consideration payable to vendors of Speirs & Jeffrey Limited, as well as related incentivisation awards to other staff (note 5).

During the period, the group revised its valuation of the earn out consideration and incentivisation awards, which is dependent on performance by the acquired business against certain operational and financial targets by 31 December 2020 and 31 December 2021. The group estimate the total amount payable on these dates to be £24.8 million, based on forecast qualifying funds under management of £4.8 billion at the end of 2020, with an associated charge to profit or loss during the first half of 2020 of £4.0 million (note 5).

If qualifying funds under management do not exceed £4.5 billion then no earn-out consideration or incentivisation awards are payable. If qualifying funds under management at 31 December 2020 are £100 million higher or lower than management's estimate then the accumulated charges as at 30 June 2020 for earn-out consideration and incentivisation awards would be £2.3 million higher or lower and the charge to profit or loss in the six months to 30 June 2020 would be £2.3 million higher or lower.

Under the terms of the agreements, the maximum possible payment under the earn-out and incentivisation awards is capped at £128,750,000; which represents qualifying funds under management of approximately £10 billion at the end of 2021.

## 4 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 2020 (unaudited) | Investment Management £'000 | Unit Trusts £'000 | Indirect expenses £'000 | Total £'000 |
|---|---|---|---|---|
| Net investment management fee income | 106,431 | 19,907 | – | 126,338 |
| Net commission income | 37,329 | – | – | 37,329 |
| Net interest income | 4,800 | – | – | 4,800 |
| Fees from advisory services and other income | 10,155 | 427 | – | 10,582 |
| **Underlying operating income** | 158,715 | 20,334 | – | 179,049 |
| | | | | |
| Staff costs – fixed | (42,897) | (2,161) | (14,278) | (59,336) |
| Staff costs – variable | (23,858) | (4,760) | (3,460) | (32,078) |
| **Total staff costs** | (66,755) | (6,921) | (17,738) | (91,414) |
| Other direct expenses | (19,968) | (4,571) | (17,126) | (41,665) |
| Allocation of indirect expenses | (31,213) | (3,651) | 34,864 | – |
| **Underlying operating expenses** | (117,936) | (15,143) | – | (133,079) |
| **Underlying profit before tax** | 40,779 | 5,191 | – | 45,970 |
| Charges in relation to client relationships and goodwill (note 14) | (7,038) | – | – | (7,038) |
| Acquisition-related costs (note 6) | (10,135) | – | (1,516) | (11,651) |
| **Segment profit before tax** | 23,606 | 5,191 | (1,516) | 27,281 |
| Taxation (note 8) | | | | (7,864) |
| **Profit for the period attributable to equity holders of the company** | | | | 19,417 |

| | Investment Management £'000 | Unit Trusts £'000 | Total £'000 |
|---|---|---|---|
| Segment total assets | 3,752,215 | 128,500 | 3,880,715 |
| Unallocated assets | | | 50,346 |
| **Total assets** | 3,752,215 | 128,500 | 3,931,061 |

## 4 *Segmental information continued*

| Six months ended 30 June 2019 (unaudited) | Investment Management £'000 | Unit Trusts £'000 | Indirect expenses £'000 | Total £'000 |
|---|---|---|---|---|
| Net investment management fee income | 110,572 | 16,929 | – | 127,501 |
| Net commission income | 27,675 | – | – | 27,675 |
| Net interest income | 7,646 | – | – | 7,646 |
| Fees from advisory services and other income | 9,354 | 555 | – | 9,909 |
| **Underlying operating income** | 155,247 | 17,484 | – | 172,731 |
| Staff costs – fixed | (39,694) | (1,887) | (14,797) | (56,378) |
| Staff costs – variable | (21,128) | (3,916) | (6,617) | (31,661) |
| **Total staff costs** | (60,822) | (5,803) | (21,414) | (88,039) |
| Other direct expenses | (17,374) | (3,837) | (16,853) | (38,064) |
| Allocation of indirect expenses | (34,872) | (3,395) | 38,267 | – |
| **Underlying operating expenses** | (113,068) | (13,035) | – | (126,103) |
| **Underlying profit before tax** | 42,179 | 4,449 | – | 46,628 |
| Charges in relation to client relationships and goodwill (note 14) | (7,795) | – | – | (7,795) |
| Acquisition-related costs (note 6) | (17,085) | – | (1,772) | (18,857) |
| **Segment profit before tax** | 17,299 | 4,449 | (1,772) | 19,976 |
| **Profit before tax attributable to equity holders of the company** | | | | 19,976 |
| Taxation (note 8) | | | | (6,214) |
| **Profit for the period attributable to equity holders of the company** | | | | 13,762 |

| | Investment Management £'000 | Unit Trusts £'000 | Total £'000 |
|---|---|---|---|
| Segment total assets | 3,045,038 | 103,967 | 3,149,004 |
| Unallocated assets | | | 4,529 |
| **Total assets** | 3,045,038 | 103,967 | 3,153,534 |

| Year ended 31 December 2019 (audited) | Investment Management £'000 | Unit Trusts £'000 | Indirect expenses £'000 | Total £'000 |
|---|---|---|---|---|
| Net investment management fee income | 224,135 | 36,073 | – | 260,208 |
| Net commission income | 51,132 | – | – | 51,132 |
| Net interest income | 16,412 | – | – | 16,412 |
| Fees from advisory services and other income | 19,247 | 1,072 | – | 20,319 |
| **Underlying operating income** | 310,926 | 37,145 | – | 348,071 |
| Staff costs – fixed | (78,562) | (3,783) | (28,477) | (110,822) |
| Staff costs – variable | (49,711) | (8,710) | (8,353) | (66,774) |
| **Total staff costs** | (128,273) | (12,493) | (36,830) | (177,596) |
| Other direct expenses | (40,392) | (7,299) | (34,111) | (81,802) |
| Allocation of indirect expenses | (63,842) | (7,099) | 70,941 | – |
| **Underlying operating expenses** | (232,507) | (26,891) | – | (259,398) |
| **Underlying profit before tax** | 78,419 | 10,254 | – | 88,673 |
| Charges in relation to client relationships and goodwill (note 14) | (15,964) | – | – | (15,964) |
| Acquisition-related costs (note 6) | (28,246) | – | (4,811) | (33,057) |
| **Segment profit before tax** | 34,209 | 10,254 | (4,811) | 39,652 |
| **Profit before tax attributable to equity holders of the company** | | | | 39,652 |
| Taxation (note 8) | | | | (12,729) |
| **Profit for the year attributable to equity holders of the company** | | | | 26,923 |

| | Investment Management £'000 | Unit Trusts £'000 | Total £'000 |
|---|---|---|---|
| Segment total assets | 3,303,691 | 89,937 | 3,393,628 |
| Unallocated assets | | | 5,106 |
| **Total assets** | | | 3,398,734 |

Included within Investment Management underlying operating income is £904,000 (30 June 2019: £1,451,000; 31 December 2019: £3,038,000) of fees and commissions receivable from Unit Trusts. Intersegment sales are charged at prevailing market prices.

The following table reconciles underlying operating expenses to operating expenses:

| | **Unaudited Six months to 30 June 2020 £'000** | Unaudited Six months to 30 June 2019 £'000 | Audited Year to 31 December 2019 £'000 |
|---|---|---|---|
| Underlying operating expenses | **133,079** | 126,103 | 259,398 |
| Charges in relation to client relationships and goodwill (note 14) | **7,038** | 7,795 | 15,964 |
| Acquisition-related costs (note 6) | **11,651** | 18,857 | 33,057 |
| **Operating expenses** | **151,768** | 152,755 | 308,419 |

## 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 2020 £'000** | Unaudited Six months to 30 June 2019 £'000 | Audited Year to 31 December 2019 £'000 |
|---|---|---|---|
| United Kingdom | **172,866** | 166,943 | 335,732 |
| Jersey | **6,183** | 5,788 | 12,339 |
| **Underlying operating income** | **179,049** | 172,731 | 348,071 |

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

## Timing of revenue recognition

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

| | **Unaudited Six months to 30 June 2020** | | Unaudited Six months to 30 June 2019 | | Audited Year to 31 December 2019 | |
|---|---|---|---|---|---|---|
| | **Investment Management £'000** | **Unit Trusts £'000** | Investment Management £'000 | Unit Trusts £'000 | Investment Management £'000 | Unit Trusts £'000 |
| Products and services transferred at a point in time | **39,110** | **(34)** | 36,632 | 167 | 53,599 | 172 |
| Products and services transferred over time | **119,605** | **20,368** | 118,615 | 17,317 | 257,327 | 36,973 |
| **Underlying operating income** | **158,715** | **20,334** | 155,247 | 17,484 | 310,926 | 37,145 |

## Major clients

The group is not reliant on any one client or group of connected clients for generation of revenues. At 30 June 2020, the group provided investment management services to 64,000 clients (30 June 2019: 60,000; 31 December 2019: 60,000).

## 5 Business combinations

### Speirs & Jeffrey

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

#### Deferred and contingent payments

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

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

- Initial share consideration: although the shares were issued on the date of acquisition, they do not vest until the third anniversary of the acquisition date, subject to the vendors remaining employed until this date.
- Earn out consideration and related incentivisation awards: these are payable in two parts in the third and fourth years following acquisition date and are subject to the delivery of certain operational and financial performance targets.

The charge recognised in profit or loss for the period ended 30 June 2020 for the above elements is as follows:

| | **Unaudited 30 June 2020 £'000** | Unaudited 30 June 2019 £'000 | Audited 31 December 2019 £'000 |
|---|---|---|---|
| Initial share consideration | **5,926** | 3,910 | 8,402 |
| Contingent consideration | **–** | 6,015 | 6,015 |
| Earn out consideration and incentivisation awards | **4,034** | 4,707 | 9,724 |
| Other deferred awards | **–** | 1,413 | 1,885 |
| | **9,960** | 16,045 | 26,026 |

These costs are being reported as staff costs within acquisition-related costs (see note 6).

### Barclays Wealth's Personal Injury and Court of Protection business

On 3 April 2020, the group acquired the trade and assets of Barclays Wealth's Personal Injury and Court of Protection business. The charge recognised in profit or loss for the period ended 30 June 2020 is set out in note 6.

## 6 Acquisition-related costs

| | **Unaudited Six months to 30 June 2020 £'000** | Unaudited Six months to 30 June 2019 £'000 | Audited Year to 31 December 2019 £'000 |
|---|---|---|---|
| Acquisition of Speirs & Jeffrey | **11,476** | 17,817 | 30,837 |
| Acquisition of Vision and Castle | **–** | 1,040 | 2,041 |
| Acquisition of Barclays Wealth's Personal Injury and Court of Protection business | **175** | – | 179 |
| Acquisition-related costs | **11,651** | 18,857 | 33,057 |

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

The group incurred £11,476,000 (30 June 2019: £17,817,000; 31 December 2019: £30,837,000) in relation to the acquisition of Speirs & Jeffrey, which is made up as follows.

| | **Unaudited Six months to 30 June 2020 £'000** | Unaudited Six months to 30 June 2019 £'000 | Audited Year to 31 December 2019 £'000 |
|---|---|---|---|
| **Acquisition costs:** | | | |
| Staff costs | **9,960** | 16,045 | 26,026 |
| Legal and advisory fees | **–** | – | 103 |
| **Integration costs** | **1,516** | 1,772 | 4,708 |
| | **11,476** | 17,817 | 30,837 |

Non-staff acquisition costs of £nil (30 June 2019: £nil; 31 December 2019: £103,000) and integration costs of £1,516,000 (30 June 2019: £1,772,000; 31 December 2019: £4,708,000) have not been allocated to a specific operating segment (note 4).

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

The group made the final payment in relation to the 2015 acquisition of Vision Independent Financial Planning and Castle Investment Solutions at the end of 2019. The group incurred the following costs during 2019, summarised by the classification within the income statement:

| | **Unaudited Six months to 30 June 2020 £'000** | Unaudited Six months to 30 June 2019 £'000 | Audited Year to 31 December 2019 £'000 |
|---|---|---|---|
| Staff costs | **–** | 690 | 1,375 |
| Interest expense | **–** | 350 | 666 |
| | **–** | 1,040 | 2,041 |

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

## Costs relating to the acquisition of Barclays Wealth's Personal Injury and Court of Protection business

The group has incurred the following costs in relation to the acquisition of Barclays Wealth's Personal Injury and Court of Protection business:

| | **Unaudited Six months to 30 June 2020 £'000** | Unaudited Six months to 30 June 2019 £'000 | Audited Year to 31 December 2019 £'000 |
|---|---|---|---|
| **Professional services costs** | **175** | **–** | **179** |
| | **175** | **–** | **179** |

These costs have been allocated to the Investment Management operating segment (note 4).

## 7 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 2020** | Unaudited Six months to 30 June 2019 | Audited year to 31 December 2019 |
|---|---|---|---|
| Investment Management: | | | |
| – investment management services | **982** | 975 | 979 |
| – advisory services | **121** | 115 | 118 |
| Unit Trusts | **37** | 34 | 35 |
| Shared services | **368** | 381 | 377 |
| | **1,508** | 1,506 | 1,509 |

## 8 Taxation

The tax expense for the six months ended 30 June 2020 was calculated based on the estimated average annual effective tax rate. The overall effective tax rate for this period was 28.8% (six months ended 30 June 2019: 31.1%; year ended 31 December 2019: 32.2%).

The effective tax rate reflects the disallowable costs of the deferred consideration payments in relation to the acquisition of Speirs & Jeffrey.

| | **Unaudited Six months to 30 June 2020 £'000** | Unaudited Six months to 30 June 2019 £'000 | Audited Year to 31 December 2019 £'000 |
|---|---|---|---|
| United Kingdom taxation | **5,138** | 7,165 | 15,570 |
| Overseas taxation | **151** | 143 | 346 |
| Deferred taxation | **2,575** | (1,094) | (3,187) |
| | **7,864** | 6,214 | 12,729 |

The underlying UK corporation tax rate for the year ending 31 December 2020 is 19.0% (2019: 19.0%).

The Finance Bill 2020 contained legislation to maintain the UK corporation tax rate at 19.0% from 1 April 2020, rather than reducing the rate to 17.0%, as previously announced. This was substantively enacted in March 2020. 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.

## 9 Dividends

An interim dividend of 25.0p per share was declared on 28 July 2020 and is payable on 6 October 2020 to shareholders on the register at the close of business on 4 September 2020 (30 June 2019: 25.0p). In accordance with IFRS, the interim dividend has not been included as a liability in this interim statement. A final dividend for 2019 of 45.0p per share was paid on 12 May 2020.

## 10 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 2020** | | Unaudited Six months to 30 June 2019 | | Audited Year to 31 December 2019 | |
|---|---|---|---|---|---|---|
| | **Pre-tax £'000** | **Post-tax £'000** | Pre-tax £'000 | Post-tax £'000 | Pre-tax £'000 | Post-tax £'000 |
| Underlying profit attributable to equity holders | **45,970** | **36,240** | 46,628 | 38,096 | 88,673 | 71,138 |
| Charges in relation to client relationships and goodwill (note 14) | **(7,038)** | **(5,701)** | (7,795) | (6,314) | (15,964) | (12,931) |
| Acquisition-related costs (note 6) | **(11,651)** | **(11,122)** | (18,857) | (18,020) | (33,057) | (31,284) |
| **Profit attributable to equity holders** | **27,281** | **19,417** | 19,976 | 13,762 | 39,652 | 26,923 |

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 53,714,423 (30 June 2019: 53,326,270; 31 December 2019: 53,566,271).

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable shares under the Executive Incentive Plan and the Speirs & Jeffrey (S&J) initial share consideration, 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 2020** | Unaudited 30 June 2019 | Audited 31 December 2019 |
|---|---|---|---|
| Weighted average number of ordinary shares in issue during the period – basic | **53,714,423** | 53,326,270 | 53,566,271 |
| Effect of ordinary share options/Save As You Earn | **317,141** | 111,502 | 97,495 |
| Effect of dilutive shares issuable under the Share Incentive Plan | **1,747** | 1,003 | 570 |
| Effect of contingently issuable ordinary shares under the Executive Incentive Plan | **885,559** | 508,274 | 574,393 |
| Effect of contingently issuable shares under the S&J initial share consideration | **1,006,522** | 1,006,522 | 1,006,522 |
| Diluted ordinary shares | **55,925,392** | 54,953,571 | 55,245,251 |

| | Unaudited Six months to 30 June 2020 | Unaudited Six months to 30 June 2019 | Audited Year to 31 December 2019 |
|---|---|---|---|
| Earnings per share for the period attributable to equity holders of the company: | | | |
| – basic | **36.1p** | 25.8p | 50.3p |
| – diluted | **34.7p** | 25.0p | 48.7p |
| Underlying earnings per share for the period attributable to equity holders of the company: | | | |
| – basic | **67.5p** | 71.4p | 132.8p |
| – diluted | **64.8p** | 69.3p | 128.8p |

## 11 Loans and advances to customers

| | Unaudited 30 June 2020 £'000 | Unaudited 30 June 2019 £'000 | Audited 31 December 2019 £'000 |
|---|---|---|---|
| Overdrafts | **6,636** | 6,777 | 5,148 |
| Investment management loan book | **125,880** | 131,235 | 132,034 |
| Trust and financial planning debtors | **1,964** | 1,080 | 1,170 |
| Other debtors | **95** | 29 | 60 |
| | **134,575** | 139,121 | 138,412 |

## 12 Property, plant and equipment

During the six months ended 30 June 2020, the group purchased assets with a cost of £1,463,000 (six months ended 30 June 2019: £893,000; year ended 31 December 2019: £3,055,000).

## 13 Right of use assets

| | Property £'000 | Motor vehicles and equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| 1 January 2020 | **54,275** | **41** | **54,316** |
| Additions | **–** | **–** | **–** |
| **At 30 June 2020 (unaudited)** | **54,275** | **41** | **4,316** |
| **Depreciation and impairment** | | | |
| 1 January 2020 (unaudited) | **4,822** | **14** | **4,836** |
| Charge in the period | **2,421** | **7** | **2,428** |
| **At 30 June 2020 (unaudited)** | **7,243** | **21** | **7,264** |
| **Carrying amount at 31 December 2019 (audited)** | **49,453** | **27** | **49,480** |
| **Carrying amount at 30 June 2020 (unaudited)** | **47,032** | **20** | **47,052** |

## 14 Intangible assets

| | Goodwill £'000 | Client relationships £'000 | Software development costs £'000 | Purchased software £'000 | Total intangibles £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2020 | 92,359 | 207,136 | 8,182 | 41,148 | 348,825 |
| Internally developed in the period | – | – | 891 | – | 891 |
| Acquired through business combinations | 6,467 | 6,890 | – | – | 13,357 |
| Purchased in the period | – | 2,641 | – | 2,236 | 4,877 |
| Disposals | – | (910) | – | (1,228) | (2,138) |
| At 30 June 2020 | 98,826 | 215,757 | 9,073 | 42,156 | 365,812 |
| **Amortisation and impairment** | | | | | |
| At 1 January 2020 | 1,954 | 82,680 | 6,037 | 30,347 | 121,018 |
| Charge in the period | – | 7,038 | 490 | 2,851 | 10,379 |
| Disposals | – | (910) | – | (1,228) | (2,138) |
| At 30 June 2020 | 1,954 | 88,808 | 6,527 | 31,970 | 129,259 |
| **Carrying value at 30 June 2020 (unaudited)** | 96,872 | 126,949 | 2,546 | 10,186 | 236,553 |
| Carrying value at 30 June 2019 (unaudited) | 90,734 | 131,324 | 2,193 | 11,402 | 235,653 |
| Carrying value at 31 December 2019 (audited) | 90,405 | 124,456 | 2,145 | 10,801 | 227,807 |

The total amount charged to profit or loss in the period, in relation to goodwill and client relationships, was £7,038,000 (six months ended 30 June 2019: £7,795,000; year ended 31 December 2019: £15,964,000).

Goodwill and client relationships acquired through business combinations in the period relate to the acquisition of the Barclays Wealth's Personal Injury and Court of Protection business (note 5).

Client relationships of £6,890,000 relate to the fair value of the client relationship intangible assets, measured using a multi-period earnings method. The model uses estimates of client longevity and investment performance to derive a series of cash flows, which are discounted to a present value to determine the fair value of the client relationships acquired.

Goodwill of £6,467,000 has been allocated to the investment management group of CGUs. Goodwill arises as a result of the acquired workforce, expected future growth, and operational synergies arising post integration. The group does not believe there are any key assumptions where reasonable changes could occur which could give rise to a material adjustment in the carrying value.

### Impairment

The recoverable amounts of the groups of CGUs to which goodwill is allocated are determined from value-in-use calculations. The group prepares cash flow forecasts derived from the most recent financial budgets approved by the board, covering the forthcoming and future years. The key assumptions underlying the budgets are that organic growth rates, revenue margins and profit margins are in line with recent historical rates and equity markets will not change significantly in the forthcoming year. Budgets are extrapolated for five years based on annual revenue and cost growth for each group of CGUs, as well as the group's expectation of future industry growth rates. A five year extrapolation period is chosen as this aligns with the period covered by the group's ICAAP modelling. A terminal growth rate is applied to year five cash flows, which takes into account the net growth forecasts over the extrapolation period and the long-term average growth rate for the industry. The group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the group of CGUs.

The pre-tax rate used to discount the forecast cash flows was 13.8% (30 June 2019: 12.0%; 31 December 2019: 8.7%). These are based on a risk-adjusted weighted average cost of capital. The group judges that these discount rates appropriately reflect the markets in which the group of CGUs operate.

During the prior year, the group recognised an impairment charge of £595,000 in relation to goodwill allocated to the Trust group of CGUs. The recoverable amount of the group of CGUs was lower than the carrying value, which reflected the fact that the business associated with this goodwill is contracting. This reduced the carrying value of the goodwill allocated to the Trust group of CGUs to £nil. The impairment was recognised in the Investment Management segment in the segmental analysis.

There was no impairment on the goodwill allocated to the investment management group of CGUs during the period.

## 15 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 2019 | 1,061 | 2,378 | 809 | 7,536 | 11,784 |
| Charged to profit or loss | – | 32 | 264 | 462 | 758 |
| Unused amount credited to profit or loss | – | – | (161) | (7) | (168) |
| Net charge to profit or loss | – | 32 | 103 | 455 | 590 |
| Other movements | 4,297 | 72 | – | – | 4,369 |
| Utilised/paid during the period | (520) | (1,050) | (616) | (1,688) | (3,874) |
| **At 30 June 2019 (unaudited)** | 4,838 | 1,432 | 296 | 6,303 | 12,869 |
| Charged to profit or loss | – | (32) | 2,588 | 888 | 3,444 |
| Unused amount credited to profit or loss | – | – | (159) | (303) | (462) |
| Net charge to profit or loss | – | (32) | 2,429 | 585 | 2,982 |
| Other movements | 972 | 107 | – | – | 1,079 |
| Utilised/paid during the period | (4,491) | (1,507) | (550) | (1,650) | (8,198) |
| **At 31 December 2019 (audited)** | **1,319** | **–** | **2,175** | **5,238** | **8,732** |
| Charged to profit or loss | **–** | **–** | **120** | **(520)** | **(400)** |
| Unused amount credited to profit or loss | **–** | **–** | **(84)** | **(23)** | **(107)** |
| Net credit to profit or loss | **–** | **–** | **36** | **(543)** | **(507)** |
| Other movements | **1,302** | **–** | **–** | **–** | **1,302** |
| Utilised/paid during the period | **(307)** | **–** | **(1,223)** | **(825)** | **(2,355)** |
| **At 30 June 2020 (unaudited)** | **2,314** | **–** | **988** | **3,870** | **7,172** |
| | | | | | |
| Payable within 1 year | **2,030** | **–** | **988** | **–** | **3,018** |
| Payable after 1 year | **284** | **–** | **–** | **3,870** | **4,154** |
| **At 30 June 2020 (unaudited)** | **2,314** | **–** | **988** | **3,870** | **7,172** |

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

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

### Deferred and contingent consideration in business combinations

Following the satisfaction of certain operational targets, contingent consideration of £1,050,000 was paid to vendors of Speirs & Jeffrey in May 2019. In addition, contingent consideration of £1,507,000 was paid in October 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 advisors 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 £3,870,000 relate to dilapidation provisions expected to arise on leasehold premises held by the group (30 June 2019: £6,303,000; 31 December 2019: £5,238,000). Prior year balances also included monies due under the contract with the assignee of leases on the group's former property at 1 Curzon Street, which was fully utilised in the period.

Dilapidation provisions are calculated using a discounted cash flow model. During the six months ended 30 June 2020, dilapidation provisions decreased by £523,000 (30 June 2019: increased £404,000; 31 December 2019: increased £677,000). The group utilised £825,000 (30 June 2019: £1,688,000; 31 December 2019: £3,338,000) of the dilapidations provision held for its properties during the period. The impact of discounting led to a credit of £523,000 (30 June 2019: additional charge of £441,000; 31 December 2019: additional charge of £1,364,000) being recognised over the period.

## *15 Provisions for liabilities and charges continued*

### Amounts payable after one year

Property-related provisions of £3,870,000 are expected to be settled within 13 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held. Remaining provisions payable after one year are expected to be settled within two years of the balance sheet date.

## 16 Subordinated loan notes

| | **Unaudited 30 June 2020 £'000** | Unaudited 30 June 2019 £'000 | Audited 31 December 2019 £'000 |
|---|---|---|---|
| Subordinated loan notes | | | |
| – face value | **20,000** | 20,000 | 20,000 |
| – carrying value | **19,989** | 19,866 | 19,927 |

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. The group does not expect to exercise the call option this year.

An interest expense of £648,000 (30 June 2019: £644,000; 31 December 2019: £1,290,000) was recognised in the period.

## 17 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 2020 % p.a.** | Unaudited 30 June 2019 % p.a. | Audited 31 December 2019 % p.a. |
|---|---|---|---|
| Rate of increase of pensions in payment: | | | |
| – Laurence Keen Scheme | **3.40** | 3.60 | 3.40 |
| – Rathbone 1987 Scheme | **3.00** | 3.30 | 3.10 |
| Rate of increase of deferred pensions | **3.00** | 3.40 | 3.10 |
| Discount rate | **1.50** | 2.35 | 2.05 |
| Inflation* | **3.00** | 3.40 | 3.10 |
| Percentage of members transferring out of the schemes per annum | **3.00** | 3.00 | 3.00 |
| Average age of members at date of transferring out (years) | **52.50** | 52.50 | 52.50 |
| Average duration of defined benefit obligation (years): | | | |
| – Laurence Keen Scheme | **17.00** | 18.00 | 19.00 |
| – Rathbone 1987 Scheme | **21.00** | 22.00 | 22.00 |

* Inflation assumptions are based on the Retail Prices Index

The assumed life expectations of members retiring aged 65 were:

| | **Unaudited 30 June 2020** | | Unaudited 30 June 2019 | | Audited 31 December 2019 | |
|---|---|---|---|---|---|---|
| | **Males** | **Females** | Males | Females | Males | Females |
| Retiring today | **23.2** | **25.2** | 23.6 | 25.6 | 23.1 | 25.1 |
| Retiring in 20 years | **24.8** | **27.0** | 25.4 | 27.4 | 24.7 | 26.9 |

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

| | **Unaudited 30 June 2020** | | Unaudited 30 June 2019 | | Audited 31 December 2019 | |
|---|---|---|---|---|---|---|
| | **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 | **(153,941)** | **(12,585)** | (148,177) | (12,860) | (146,398) | (12,726) |
| Fair value of scheme assets | **137,991** | **12,088** | 139,181 | 12,160 | 138,932 | 12,178 |
| **Total deficit** | **(15,950)** | **(497)** | (8,996) | (700) | (7,466) | (548) |

The group made lump sum contributions into its pension schemes totalling £1,918,000 during the period (30 June 2019: £1,918,000; 31 December 2019: £3,128,000).

## 18 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 | Merger reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| At 1 January 2019 | 55,206,957 | | 2,760 | 205,273 | 56,785 | 264,818 |
| Shares issued: | | | | | | |
| – in relation to business combinations | 603,913 | 2,484.0 | 30 | – | 14,971 | 15,001 |
| – to Share Incentive Plan | 70,722 | 2,085.0 – 2,540.0 | 4 | 1,633 | – | 1,637 |
| – to Save As You Earn scheme | 125,526 | 1,556.0 – 1,648.0 | 6 | 2,015 | – | 2,021 |
| – to Employee Benefit Trust | 70,000 | 5.0 | 4 | – | – | 4 |
| **At 30 June 2019 (unaudited)** | 56,077,118 | | 2,804 | 208,921 | 71,756 | 283,481 |
| Shares issued: | | | | | | |
| – to Share Incentive Plan | 80,044 | 2,085.0 – 2,540.0 | 4 | 1,731 | – | 1,735 |
| – to Save As You Earn scheme | 17,976 | 1,556.0 – 1,648.0 | 1 | 287 | – | 288 |
| – to Employee Benefit Trust | **186,848** | **5.0** | **9** | **–** | **–** | **9** |
| **At 31 December 2019 (audited)** | **56,361,986** | | **2,818** | **210,939** | **71,756** | **285,513** |
| Shares issued: | | | | | | |
| – to Share Incentive Plan | **133,945** | **1,296.0 – 2,110.0** | **7** | **2,119** | **–** | **2,126** |
| – to Save As You Earn scheme | **3,180** | **1,641.0 – 1,648.0** | **–** | **52** | **–** | **52** |
| – to Employee Benefit Trust | **859,800** | **5.0** | **43** | **–** | **–** | **43** |
| **At 30 June 2020 (unaudited)** | **57,358,911** | | **2,868** | **213,110** | **71,756** | **287,734** |

On 28 May 2019, the company issued 603,913 shares in respect of the contingent consideration from the acquisition of Speirs & Jeffrey, following the satisfaction of certain operational targets.

At 30 June 2020, the group held 3,708,454 own shares (30 June 2019: 2,189,960; 31 December 2019: 2,611,442).

## 19 Share-based payments

The group recognised total expenses of £3,779,000 (30 June 2019: £4,925,000; 31 December 2019: £9,328,000) in relation to share-based transactions in the period. This excludes the staff costs in relation to the acquisition of Speirs & Jeffrey reported within acquisition-related costs (note 6).

## 20 Financial instruments

### Fair value measurement

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 2020 (unaudited) | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Fair value through profit or loss: | | | | |
| – equity securities | **5,209** | **–** | **2,292** | **7,501** |
| – money market funds | **–** | **102,373** | **–** | **102,373** |
| | **5,209** | **102,373** | **2,292** | **109,874** |

| At 30 June 2019 (unaudited) | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Fair value through profit or loss: | | | | |
| – equity securities | 3,624 | – | 1,254 | 4,878 |
| – money market funds | – | 121,430 | – | 121,430 |
| | 3,624 | 121,430 | 1,254 | 126,308 |

| At 31 December 2019 (audited) | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Fair value through profit or loss: | | | | |
| – equity securities | 4,587 | – | 1,186 | 5,773 |
| – money market funds | – | 100,194 | – | 100,194 |
| | 4,587 | 100,194 | 1,186 | 105,967 |

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 not measured at fair value are not materially different from their carrying values with the exception of the following:

- Debt securities that are classified and measured at amortised cost comprise bank and building society certificates of deposit, which have fixed coupons. The fair value of debt securities at 30 June 2020 was £634,780,975 (30 June 2019: £922,725,963; 31 December 2019: £604,462,000) and the carrying value was £647,068,000 (30 June 2019: £917,098,000; 31 December 2019: £600,291,000). Fair value is based on market bid prices and hence would be categorised as level 1 within the fair value hierarchy.
- Subordinated loan notes (note 16) comprise Tier 2 loan notes. The fair value of the loan notes at 30 June 2020 was £20,146,000 (30 June 2019: £20,197,000; 31 December 2019: £21,302,000) and the carrying value was £19,989,000 (30 June 2019: £19,866,000; 31 December 2019: £19,927,000). 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.

### Level 3 financial instruments

#### Fair value through profit or loss

The group holds 1,809 shares in Euroclear Holdings SA, which are classed as level 3 in the fair value hierarchy since no observable market data is available. The fair value of these shares was previously calculated with reference to the last buyback event in May 2017 when shares were sold at €774. In the current period, the valuation has been calculated by reference to the most readily available data, which is the entity's estimated net asset value per share at 30 June 2020 of £1,267. This value is based on the most recent published net asset value at 31 December 2019, adjusted in line with forecast earnings for the six months to 30 June 2020.

The valuation at the balance sheet date also reflects movements in exchange rates in the period. A 10% weakening of the euro against sterling, occurring on 30 June 2020, would have reduced equity and profit after tax by £186,000 (30 June 2019: £102,000; 31 December 2019: £96,000). A 10% strengthening of the euro against sterling would have had an equal and opposite effect.

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

| | **Unaudited 30 June 2020 £'000** | Unaudited 30 June 2019 £'000 | Audited 31 December 2019 £'000 |
|---|---|---|---|
| At 1 January | **1,186** | 1,259 | 1,259 |
| Acquired in the year | **–** | – | – |
| Total unrealised gains/(losses) recognised in profit or loss | **1,106** | (5) | (73) |
| **At 30 June** | **2,292** | 1,254 | 1,186 |

## Expected credit loss provision

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

| | **Cash and balances with central banks £'000** | **Loans and advances to banks £'000** | **Investment Management loan book £'000** | **Trust and financial planning debtors £'000** | **Debt securities £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| Balance at 1 January 2020 (audited) | **222** | **7** | **–** | **103** | **30** | **362** |
| Amounts written off | **–** | **–** | **–** | **–** | **–** | **–** |
| Net remeasurement of loss allowance | **710** | **4** | **13** | **(9)** | **22** | **740** |
| **Balance at 30 June 2020 (unaudited)** | **932** | **11** | **13** | **94** | **52** | **1,102** |

As at 30 June 2020, the impairment allowance in respect of all financial assets in the table above was measured at an amount equal to 12 month ECLs, apart from trust and financial planning debtors, where the impairment allowance was equal to lifetime ECLs.

## 21 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 2020 but not provided for in the condensed consolidated interim financial statements amounted to £2,368,000 (30 June 2019: £2,311,000; 31 December 2019: £787,000).

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

| | **Unaudited 30 June 2020 £'000** | Unaudited 30 June 2019 £'000 | Audited 31 December 2019 £'000 |
|---|---|---|---|
| Guarantees | **–** | 117 | 117 |
| Undrawn commitments to lend of 1 year or less | **29,141** | 24,747 | 23,344 |
| Undrawn commitments to lend of more than 1 year | **9,770** | 8,340 | 7,940 |
| | **38,911** | 33,204 | 31,401 |

The fair value of the guarantees is £nil (30 June 2019 and 31 December 2019: £nil).

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

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

## 22 Cash and cash equivalents

For the purpose 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 2020 £'000** | Unaudited 30 June 2019 £'000 | Audited 31 December 2019 £'000 |
|---|---|---|---|
| Cash and balances at central banks | **2,300,000** | 1,270,056 | 1,930,000 |
| Loans and advances to banks | **162,154** | 176,178 | 117,839 |
| Investment securities held at fair value through profit or loss | **102,373** | 121,430 | 100,194 |
| | **2,564,527** | 1,567,664 | 2,148,033 |

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

Cash flows arising from issue of ordinary shares comprise:

| | **Unaudited Six months to 30 June 2020 £'000** | Unaudited Six months to 30 June 2019 £'000 | Audited 31 December 2019 £'000 |
|---|---|---|---|
| Share capital issued (note 18) | **50** | 44 | 58 |
| Share premium on shares issued (note 18) | **2,171** | 3,648 | 5,666 |
| Merger reserve on shares issued (note 18) | **–** | 14,971 | 14,971 |
| Shares issued in relation to share-based schemes for which no cash consideration was received | **–** | (15,001) | (15,001) |
| Shares issued in relation to share buybacks | **(4,282)** | (4,362) | (10,034) |
| | **(2,061)** | (700) | (4,340) |

## 23 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 £67,000 were paid in the period (six months ended 30 June 2019: £69,000; year ended 31 December 2019: £95,000) in respect of ordinary shares held by key management personnel.

As at 30 June 2020, the group had provided interest-free season ticket loans of £nil (30 June 2019: £nil; 31 December 2019: £nil) to key management personnel.

At 30 June 2020, key management personnel and their close family members had gross outstanding deposits of £801,000 (30 June 2019: £3,804,000; 31 December 2019: £636,000) and gross outstanding loans of £4,000 (30 June 2019: £724,000; 31 December 2019: £nil) 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. During the first half of 2020, the group managed 29 unit trusts, Sociétés d'investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (six months ended 30 June 2019: 27 collectives; year ended 31 December 2019: 27 collectives).

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

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

| | Unaudited Six months to 30 June 2020 £'000 | Unaudited Six months to 30 June 2019 £'000 | Audited Year to 31 December 2019 £'000 |
|---|---|---|---|
| Total management fees | **19,298** | 17,516 | 40,111 |

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

| | Unaudited Six months to 30 June 2020 £'000 | Unaudited Six months to 30 June 2019 £'000 | Audited Year to 31 December 2019 £'000 |
|---|---|---|---|
| Management fees owed to the group | **3,930** | 3,542 | 3,904 |
| Holdings in unit trusts (note 20) | **5,209** | 3,624 | 4,587 |
| | **9,139** | 7,166 | 8,491 |

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

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

## 24 Interest in unconsolidated structured entities

As described in note 23, at 30 June 2020, the group owned units in collectives managed by Rathbone Unit Trust Management with a value of £5,209,000 (30 June 2019: £3,624,000; 31 December 2019: £4,587,000), representing 0.06% (30 June 2019: 0.06%; 31 December 2019: 0.08%) 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.

## 25 Events after the balance sheet date

An interim dividend of 25.0p per share was declared on 28 July 2020 (note 10).

There have been no other material events occurring between the balance sheet date and 28 July 2020.

# Regulatory capital

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

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

## Regulatory own funds

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

| | **Unaudited 30 June 2020 £'000** | Unaudited 30 June 2019 £'000 | Unaudited 31 December 2019 £'000 |
|---|---|---|---|
| Share capital and share premium | **215,978** | 211,725 | 213,757 |
| Reserves | **308,710** | 303,814 | 313,607 |
| Less: | | | |
| – prudent valuation of assets held at fair value through profit or loss | **(110)** | (126) | (106) |
| – own shares | **(46,088)** | (36,838) | (41,971) |
| – intangible assets (net of deferred tax) | **(225,686)** | (226,367) | (218,884) |
| Total Common Equity Tier 1 capital | **252,804** | 252,208 | 266,403 |
| Tier 2 capital | **11,911** | 17,059 | 15,683 |
| **Total own funds** | **264,715** | 269,267 | 282,086 |

## 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 2020, the group's risk-weighted assets were £1,187,800,000 (30 June 2019: £1,232,500,000; 31 December 2019: £1,209,038,000).

### 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. These include:

#### Pension obligation risk

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

#### Interest rate risk in the banking book

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

#### Concentration risk

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

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

### Capital conservation buffer (CCB)

The CCB is a general buffer of 2.5% of risk-weighted assets designed to provide for losses in the event of a stress. 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 to 0% for the UK. However, different rates for other countries, where the group has small relevant credit exposures, result in an overall rate of 0.18% of risk-weighted assets for the group as at 30 June 2020. 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 2020 £'000** | Unaudited 30 June 2019 £'000 | Unaudited 31 December 2019 £'000 |
|---|---|---|---|
| Own funds requirement for credit risk and settlement risk | **45,240** | 52,270 | 46,496 |
| Own funds requirement for market risk | **–** | – | 443 |
| Own funds requirement for operational risk | **49,784** | 46,330 | 49,784 |
| Pillar 1 own funds requirement | **95,024** | 98,600 | 96,723 |
| Pillar 2A own funds requirement | **39,665** | 49,113 | 39,830 |
| **Total Pillar 1 and 2A own funds requirement** | **134,689** | 147,713 | 136,553 |
| CRD IV buffers: | | | |
| – capital conservation buffer (CCB) | **29,695** | 30,812 | 30,226 |
| – countercyclical capital buffer (CCyB) | **2,083** | 10,460 | 11,334 |
| **Total Pillar 1 and 2A own funds requirement and CRD IV buffers** | **166,467** | 188,985 | 178,113 |

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

## Confirmations by the board

We confirm to the best of our knowledge:

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

## Going concern basis of preparation

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

Group companies are regulated by the PRA and FCA and perform annual capital adequacy assessments, which include the modelling of certain extreme stress scenarios. These forecasts have been prepared taking account of the potential impacts of the COVID-19 pandemic on market volatility, net organic growth and additional costs of maintaining operational resilience. 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 2020, and as at 30 June 2020, the group was primarily equity-financed, with a small amount of gearing in the form of the Tier 2 debt.

The group's financial projections and the capital adequacy assessment provide comfort that the group has adequate financial and regulatory resources to continue in operational existence for the foreseeable future. Accordingly, 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

Paul Stockton
Chief Executive

28 July 2020

# 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 2020 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 notes 1 to 25. 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 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 Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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 formed.

## 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 Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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 International Accounting Standard 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 Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, 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 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 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor
Hill House, 1 Little New Street, London EC4A 3TR

28 July 2020

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Rathbones
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