# ANNUAL REPORT & ACCOUNTS 2016

STM GROUP PLC

STMGROUPPLC.COM

STM Group Plc is a multi-jurisdictional financial services group listed on the Alternative Investment Market of the London Stock Exchange. The Group specialises in the delivery of a wide range of financial service products to professional intermediaries and in the administration of assets for international clients in relation to retirement, estate and succession planning and wealth structuring.

Today STM has trading operations in the United Kingdom, Gibraltar, Jersey, Malta and Spain. It has also opened sales offices in South East Asia, the Middle East, South Africa and Australia. The Group continues to expand through the development of additional products and services to meet the demands of its expatriate client base.



# REVENUE OF £17.4 MILLION
# (2015: £16.2 million)

## Earnings before interest, taxation, depreciation and amortisation ("EBITDA") £3.1 million
(2015: £3.1 million)

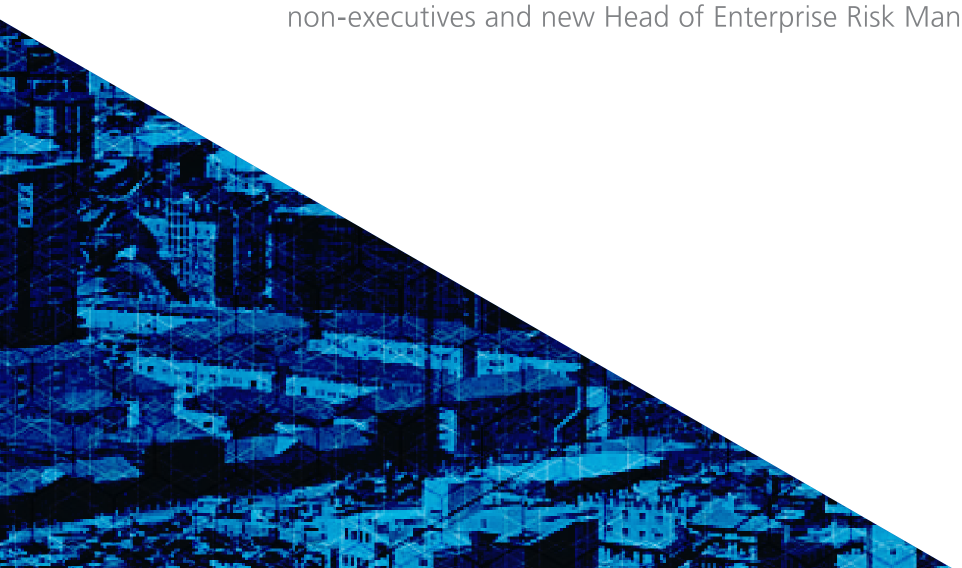
## Strong balance sheet with cash of £11.9 million at year end
(2015: £8.0 million)

### FINANCIAL HIGHLIGHTS:

- Revenue for the period up 8% at £17.4 million (2015: £16.2 million)
- EBITDA for the period of £3.1 million (2015: £3.1 million)
- Profit before tax for the period of £2.8 million (2015: £2.7 million)
- Earnings per share of 3.99 pence (2015: 3.99 pence)
- Strong balance sheet with cash and cash equivalents balance up 49% at £11.9 million (31 December 2015: £8.0 million)
- Total dividend for the year of 1.5 pence (2015: 0.9 pence)

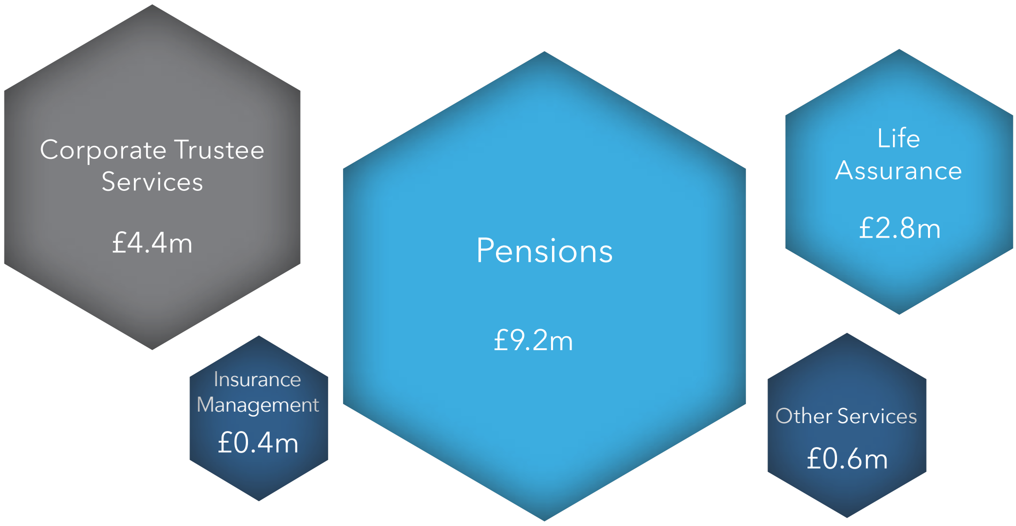
### OPERATIONAL HIGHLIGHTS:

- Acquisition of a UK SIPP business and life assurance company, London & Colonial Holdings Ltd (LCH), for up to £5.385 million, which completed on 21 October 2016
- Smooth integration of LCH businesses generating cost savings – on track to save £500,000 in 2017
- Significant organic growth rate in STM Life of 32% compared to 2015
- Review of QROPS pricing structure resulting in enlarged long term client base and almost 11,000 QROPS pension members as at 31 December 2016 (2015: 9,688)
- Strengthening of main Board and senior management to support future growth – two new non-executives and new Head of Enterprise Risk Management



# A YEAR IN REVIEW

## REVENUE BY OPERATING SEGMENT 2016




**Pensions**
UK, Gibraltar, Malta

**Corporate Trustee Services**
Gibraltar, Malta, Jersey

**Life Assurance**
Gibraltar

**Insurance Management**
Gibraltar

**Other Services**
Gibraltar, Spain

## GEOGRAPHICAL OPERATING SEGMENTS

TRADING OFFICES:


**Gibraltar**


**Jersey**


**Malta**


**Spain**

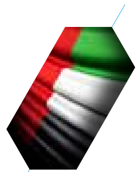

**UK**

SALES OFFICES:

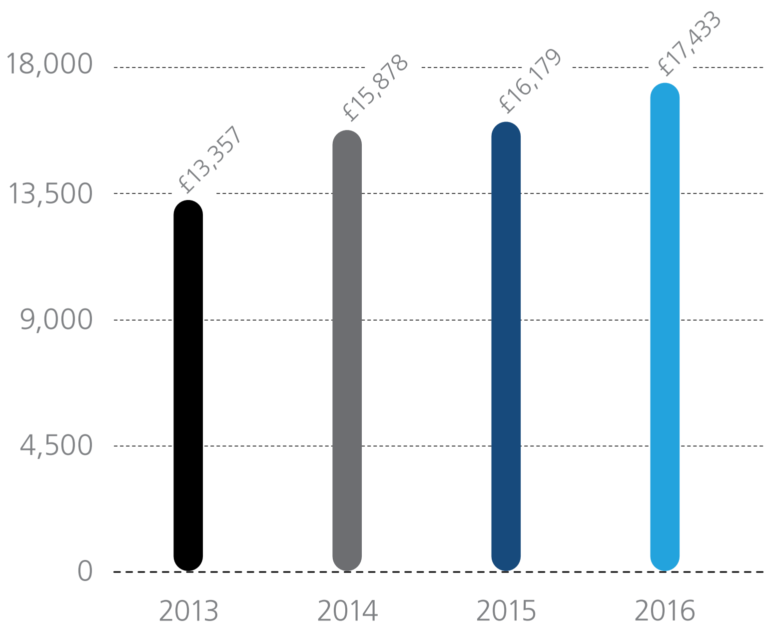

**Australia**


**Hong Kong**


**South Africa**


**UAE**

## REVENUE (£'000s)




**Steady Growth:**

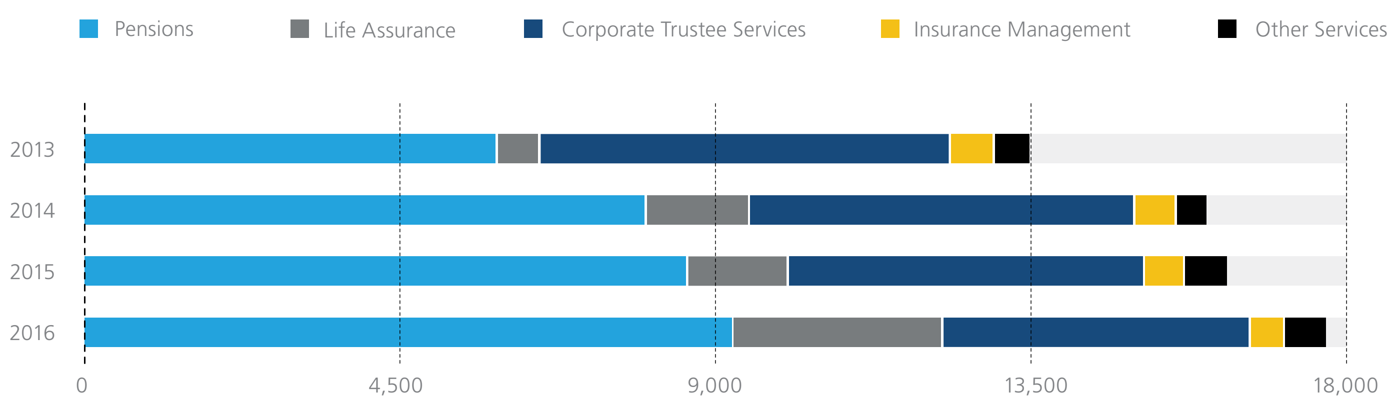
Revenues increased by circa 8% from prior year due to organic growth and acquisition.

**Strong Visibility:**

Recurring revenue increased from 66% in 2015 to 75% of total revenue in 2016.

7.75%*

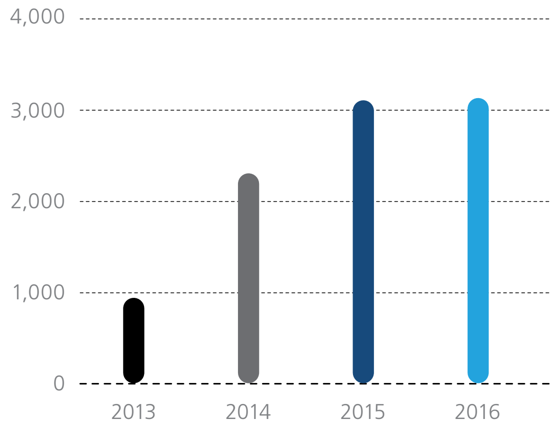
## REVENUE BY OPERATING SEGMENT




*as compared to 2015

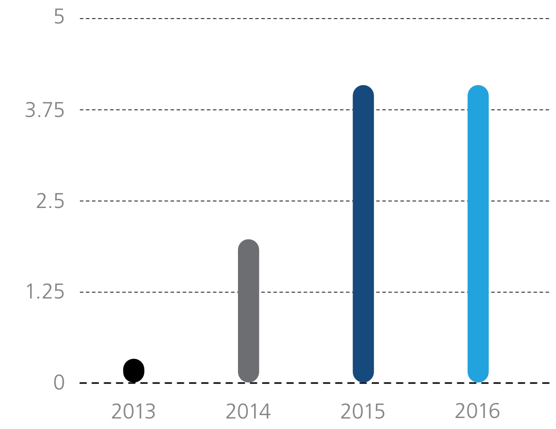
# A YEAR IN REVIEW

## EBITDA (£'000s)




0.45%*

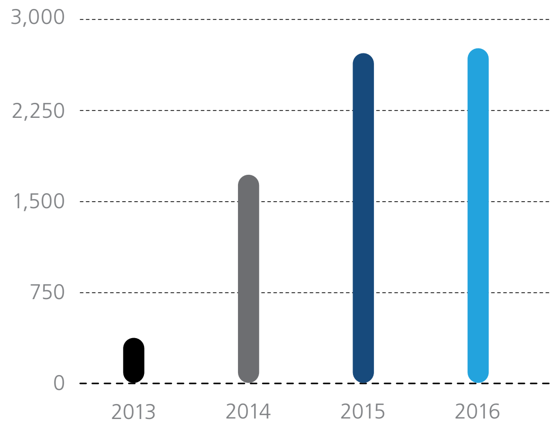
## EARNINGS PER SHARE (EPS)




EPS CONSISTENT WITH PREVIOUS YEAR

DIVIDEND YIELD 2016: 3.7%

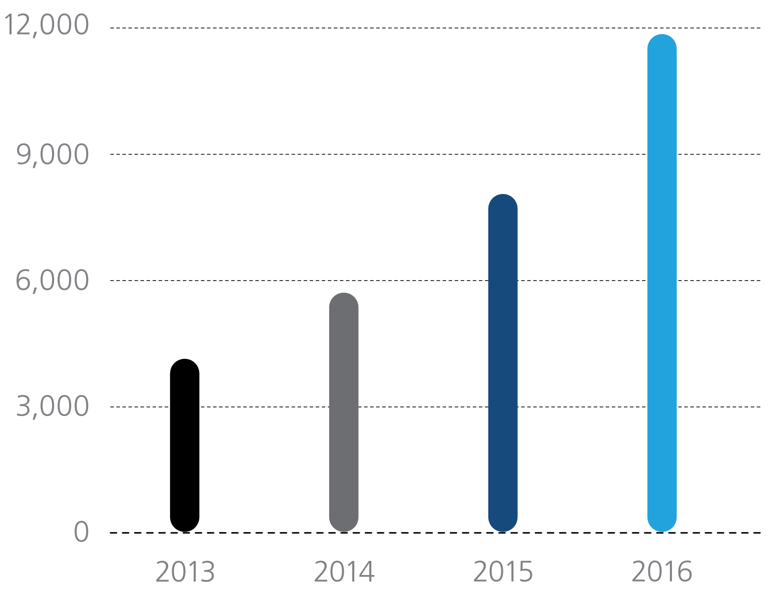
## PROFIT BEFORE TAX (£'000s)




1.85%*

*as compared to 2015

## CASH AND CASH EQUIVALENTS (£'000s)[1]




Strong balance sheet:

Cash and cash equivalents acquired with LCH acquisition amounted to over £5 million.

Cash generated from operating activities amounted to circa £1.2 million.

47.70%*

## AVERAGE NUMBER OF EMPLOYEES (GROUP)

Average number of employees (including Executive Directors) = 10 Employees


* as compared to 2015
[1] includes regulatory cash

# GROWING STM GROUP

## BY ACQUISITION

Acquisition of London & Colonial Holdings Ltd on 21 October 2016 provided STM Group with:

Approximately **2,000** SIPP Policies

Approximately **1,200** Life Assurance Policies

Approximately **300** QROPS

LONDON & COLONIAL
INNOVATION IN PENSIONS

## ORGANICALLY

Number of new QROPS - 1,500

Total QROPS under management at year end - 10,635
(10,933 with acquisition)

QROPS natural attrition - 3%

Number of new life assurance policies - 481

“WE ARE CONFIDENT THAT STM WILL CONTINUE TO IMPROVE ITS PRODUCT OFFERING AND BROADEN ITS REVENUE STREAMS”

# CHAIRMAN'S STATEMENT

**MICHAEL RIDDELL**
Chairman

I AM PLEASED TO PRESENT THE GROUP'S FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016 WHICH CONTINUE TO SHOW A SOLID PERFORMANCE AND WHICH PROVIDE THE FOUNDATION TO UNDERPIN THE BOARD'S CONFIDENCE IN THE FUTURE.

In 2016, the positive effect of the Board's decision to change our QROPS pricing structure, with the temporary suspension of the establishment fee on new business, increased our recurring revenue streams, thus delivering a stronger cash generation. This allows the business to continue its dividend policy, meet the repayment terms of the London & Colonial Holdings Ltd ("LCH") acquisition, and still leave strong cash balances.

This year has seen a number of changes to the composition of the Board and the further strengthening of the Group's senior management structure through the creation of the Head of Distribution, Head of Pensions and Head of Enterprise Risk Management roles which will support future growth and stability. Through this strengthening of the Board and management, the acquisition of LCH and the pursuit of our business development plans, we are confident that STM will continue to improve its product offering and broaden its revenue streams.

I would like to take this opportunity to personally thank all of the Group's Directors, executives and staff for their efforts in delivering the growth in our business while expanding our product offerings.

The Board believes that the Group has taken significant steps in 2016 to advance its growth and profitability strategy. Notwithstanding the impact of the UK's Spring Budget, we look forward with optimism to further delivering on STM's potential in the forthcoming years.

*Michael Riddell*

**Michael Riddell**
*Chairman*
*14 March 2017*

“STM IS AN AMBITIOUS BUSINESS WITH A GROWTH STRATEGY AND FIRST MOVER ADVANTAGE IN SOME RELATIVELY UNTAPPED MARKETS”

# CHIEF EXECUTIVE OFFICER'S STATEMENT

**ALAN KENTISH**
Chief Executive Officer

## IT GIVES ME GREAT PLEASURE TO PRESENT THE ANNUAL RESULTS FOR STM GROUP PLC FOR THE YEAR ENDED 31 DECEMBER 2016.

There is no doubt that my first year as CEO has been an exciting and a busy one, albeit with some challenges, which pleasingly were overcome to bring financial performance back in line with management's revised expectation.

One of these challenges was the effect of external influences producing lower than expected numbers of new QROPS applications during the first four months of the year. Whilst this was not envisaged or expected by the business at the start of the year, management was able to swiftly address this by significantly changing the pricing structure for new QROPS business by temporarily waiving the establishment fee for new policies. Whilst this resulted in forgoing some revenue for this year, the vision was to generate increased long term recurring revenue, thus a short term pain for the sake of longer term benefits.

I am pleased to say this initiative paid off and has resulted in 1,500 new pension clients in the year, thus bringing the annual run rate for new business back in line with the second half of the previous year and bringing the total number of QROPS policies under management to almost 11,000 as at 31 December 2016.

In October 2016, STM saw the realisation of an important strategic objective by way of the acquisition of London & Colonial Holdings Limited ("LCH"). The Board viewed the acquisition of a small UK SIPP business as very complementary to our existing pensions operations.

The new pensions administration office in the United Kingdom continues to help STM position itself as a truly international pensions administrator, and builds on our administrative offices in Malta and Gibraltar. In addition, the Group has also expanded its worldwide presence by opening a further sales office in Australia to access a significant UK expatriate community for its Australian Taxation Office approved Gibraltar based QROPS. This sales office follows the same concept as STM's business development offices in Dubai, Hong Kong, South Africa and Europe.

STM continues to invest both human and financial resources in its product development team for both enhancing existing product offerings for short term profitability as well as in new pension and life assurance products for the medium term.

## ACQUISITION OF LONDON & COLONIAL HOLDINGS LIMITED (LCH) DURING THE YEAR

STM Group had been reviewing ways to enter the UK SIPP market for some time as we believed this to be a highly complementary addition to our existing international pensions business, in that it would allow us to offer a solution for those expatriates returning to the UK.

The acquisition of LCH in late 2016, which included a SIPP operation, ticked this box; but in reality brought much more to the Group than a SIPP business alone. Aside from the UK SIPP business, LCH has two further companies in Gibraltar, between them offering QROPS and life assurance products. This acquisition has therefore contributed towards the increased revenues in the year both in the pensions and life assurance segments.

Since its acquisition the integration has proceeded smoothly with the Gibraltar businesses having relocated to STM's existing offices, thus realising cost savings, as expected, with effect from 1 January 2017.

In addition to the cost savings, which are expected to be in the region of £0.5 million for 2017, I am pleased to note that the management team has been retained by STM, thus providing continuity to our clients and staff. Furthermore,

# CHIEF EXECUTIVE OFFICER'S STATEMENT

whilst it is still early days, management of both STM and LCH are working on various initiatives which could result in a redeployment of regulated capital.

## OPERATIONAL OVERVIEW

### PENSIONS

Our pensions business continued to show solid growth from new business, with turnover in the year amounting to £9.2 million (2015: £8.6 million). This 7.5% increase in revenues is as a result, in equal measure, of both organic growth and the acquisition of the SIPP and QROPS businesses which form part of the LCH acquisition. Our pensions business this year accounted for 52% of the Group's turnover (2015: 53%), with this slight decrease being as a result of the significant growth seen in the life assurance segment.

As a result of the pricing initiative taken in April 2016, whereby we waived our establishment fee on new QROPS business, we saw this one-off fee revenue fall from £1.4 million in 2015 to £0.3 million in 2016. However, as anticipated, this saw an acceleration in new business introductions that will have a longer term contribution to profitability through increased annual recurring fees from an enlarged client base.

As a percentage, the organic growth in the pensions business for 2016 has been noted equally in Gibraltar and Malta. However, in terms of client numbers and revenues generated, the increase is considerably higher in Malta. As noted in prior years, this was primarily due to our Malta based US Plan continuing to gain traction.

Consequently, Malta remains the larger of our two jurisdictions with pension turnover of £6.5 million (2015: £6.3 million), with Gibraltar having generated £2.4 million (2015: £2.3 million) of turnover in the year. Annual recurring revenue for 2016 amounted to £8.5 million (2015: £7.1 million) which represents 93% (2015: 82%), giving a highly visible and predictable future revenue stream.

The pensions business acquired as part of the LCH Group has generated circa £0.3 million of revenues during the 3 months that LCH was successfully integrated into the Group.

### LIFE ASSURANCE

The acquisition of LCH and with it the Gibraltar based life assurance company (LCA) will give STM Life critical mass and result in considerable cost savings. That said, I am pleased to note that the organic growth for STM Life during the year has delivered a significant 32% uplift, to generate turnover for 2016 of £1.9 million (2015: £1.4 million). Furthermore, within the revenue figure reported, annual fees and investment income amounted to £1.4 million compared to £0.8 million in 2015. This provides a steady and highly visible annuity income stream going forward.

Since the acquisition, LCA has generated regular revenues of £0.5 million as per management's expectations. However, in addition, as a result of the cost saving initiatives put in place for 2017, the cost per policy of running this business has decreased. As such we have been able to release part of the insurance technical expense reserve. This release of £0.5 million has resulted in increased surplus on the long term business fund and thus increased revenues for the Group.

### CORPORATE AND TRUSTEE SERVICES

Turnover from the Corporate and Trustee Services (CTS) division for the year was £4.4 million (2015: £5.1 million) thus accounting for 25% of the Group's total turnover (2015: 31%). This business is generated in Jersey and Gibraltar, with Jersey revenue accounting for circa 56% (2015: 54%) of the CTS business at £2.5 million (2015: £2.7 million) and Gibraltar generating turnover of £1.9 million (2015: £2.3 million).

As noted in last year's report, the decrease in Gibraltar based revenues was expected as this was driven by a loss of client structures having closed down during 2015. As such, management reacted accordingly and adjusted its cost base to ensure profitability going forward was maintained. Similarly, initiatives have taken place in Jersey to maintain profitability levels.

### OTHER TRADING DIVISIONS AND NEW INITIATIVES

Trading in other divisions, which are mainly insurance management and the Spanish office, was broadly in line with management expectations. These are expected to continue at similar levels going forward having generated revenue of £1.1 million in the year (2015: £1.1 million).

## FINANCIAL REVIEW

### PERFORMANCE IN THE YEAR

Whilst profitability remained fairly consistent with 2015, revenues for the Group increased in the year by 8% to £17.4 million (2015: £16.2 million). This is predominantly as a result of the LCH acquisition which was acquired for the prospect of the synergies but which at the time of acquisition was very much a break-even business. Thus, whilst this has resulted in increased revenues, it will be 2017 before we see steady contributions to monthly profit.

As expected, given the nature of the pension business, the amount of recurring annuity revenue business continues to increase and now accounts for 75% of 2016 total revenues (2015: 66%).

EBITDA has remained consistent with 2015 at £3.1 million (2015: £3.1 million).

Finance costs for the year were slightly lower at £0.1 million which was to be expected given the only borrowing in place for the Group was taken out towards the end of the year for the purposes of the acquisition of LCH. The depreciation and amortisation charge has in turn increased as a result of amortising the client portfolio acquired with LCH. This is £0.3 million in 2016 (2015: £0.2 million).

Profit before tax was £2.8 million for the year (2015: £2.7 million) with earnings per share remaining consistent at 3.99p. Diluted earnings per share takes into consideration the long term incentive plan approved by the Company as approved by the shareholders at the Annual General Meeting on 18 May 2016 which stipulates a maximum dilution factor of 5%.

The effective tax rate in the year remained fairly consistent at 14% with the prior year (2015: 15%). The charge for the year was £0.4 million (2015: £0.4 million).

### CASHFLOWS

Overall cash balances at the year end have increased by £3.7 million (2015: £2.4 million) resulting in cash and cash equivalents balance of £11.9 million at 31 December 2016 (2015: £8.0 million). Cash generated from operating activities during the year after the LCH acquisition amounted to £1.2 million (2015: £3.2 million). Whilst the Company has made two cash payments for the acquisition during the year totalling £4.2 million it sought bank borrowings of £3.3 million and acquired £5.0 million of cash and cash equivalents.

The bank borrowings of £3.3 million taken out in October 2016 for the purposes of the acquisition is capital repayment free for the first year, at a rate of 4% above LIBOR. Repayments are then quarterly over years 2 and 3.

In line with most services businesses, the Group had accrued income in the form of work performed for clients but not yet billed at the year end of £1.2 million (2015: £1.8 million). The Group's accounting policy for accrued income in relation to its pensions business is based on the number of applications received but for which an invoice has not yet been raised. Invoices are raised once the pension funds are received and the fees can be taken. The decrease in accrued income primarily relates to the abolishment of the establishment fee on new business and the reduced CTS client portfolios.

Deferred income (a liability in the statement of financial position), representing fees billed in advance yet to be credited to the statement of total comprehensive income, has increased to £3.8 million, as compared to the balance as at 31 December 2015 of £2.6 million. The main reason for this increase of £1.2 million is the acquisition of LCH which has deferred income at the year end of £1.1 million.

Both the accrued and deferred income will be invoiced and earned in 2017 thus providing visibility on fees for the forthcoming year.

Trade and other receivables as at 31 December 2016 has increased to £5.2 million (2015: £4.2 million). Trade receivables at the year end stood at £3.4 million (2015: £3.1 million) and the increase in this is in part due to the acquisition (£0.1 million) with the balance being as a result of increased pensions business. Other receivables amount to £1.8 million (2015: £1.1 million). This increase of £0.7 million in other receivables is due to the acquisition (£0.3 million) and increased prepayments.

## DIVIDEND POLICY

Following the reinstatement of the Group's dividend policy in March 2016 I am pleased to advise that the Board is recommending the payment of a final dividend of 1.0p per share (2015: 0.9p per share). This, together with the interim dividend paid of 0.5p in November 2016 (2015: nil), makes a proposed total dividend for the year of 1.5p per share (2015: 0.9p).

The Board remains committed to enhancing shareholder value by growing the dividend subject to the working capital requirements and planned investment in the business. If approved, the final dividend will be paid on 28 June 2017 to shareholders on the register at the close of business on 2 June 2017. The ordinary shares will become ex-dividend on 1 June 2017.

## OUTLOOK

2016 was a year that presented some early challenges however which ended strongly and met revised expectations. The pricing policy decision and the acquisition of London & Colonial Holdings Ltd resulted in a solid and steady increase in new pensions applications for the latter half of 2016, and this was expected to continue into 2017.

However, in the UK Government's Spring budget speech on the 8 March 2017, the Chancellor indicated that there will be significant charges and tax implications for some individuals considering taking out a QROPS transfer from a UK pension scheme.

This change is likely to have an impact on STM's ability to significantly grow the number of QROPS policies it administers; however it is not anticipated that this tax change will impact the Group's existing QROPS business, which generated recurring revenue from annual management charges of approximately £8.5 million in 2016.

Whilst it is very early days to fully understand the exact impact, it would appear that some 20% of anticipated new QROPS business will be unaffected. The other 80% of anticipated new business, which is generated outside of the EEA, may be at risk. However, we believe that some of this potential loss of QROPS business will manifest itself into new UK SIPP applications, as a result of the proposed legislation.

It is still too early to quantify the exact potential impact on our new QROPS business, which the Directors anticipate will be somewhat mitigated by an increase in UK SIPP applications. We have however taken a prudent approach to revising our expectations for the growth in Group revenue from 2016 to 2017 and assumed that on a worst case scenario basis the potential reduction in new QROPS applications will result in our Group revenue expectation for 2017 being reduced by some £1.1 million compared to our previous expectations. This worst case scenario still represents double digit revenue growth from 2016 to 2017 and does not yet reflect changes in the Group's cost base which management will focus on, where appropriate, to ensure that margins can be maintained.

In turn, it is anticipated that this proposed legislation will stagnate some of the QROPS market in Gibraltar and Malta, and that this will lead to some consolidation in the marketplace. STM, with strong cash balances, would be well placed to capitalise on this opportunity.

In relation to the LCH acquisition, management expectations are that the full integration will be achieved during the course of 2017, achieving the synergy benefits and, in turn, resulting in a solid and steady profit contributor to the Group.

The Board remains focussed on bringing new products to market, and the shortly-to-be launched Australian product will bring about a further revenue stream, unaffected by the UK Spring Budget proposals.

The main Board and senior management appointments made in 2016 strengthen the Group's focus on risk management and service level functionality. As the business continues to grow, the Board is conscious of the necessity to ensure sufficient management bandwidth to maintain corporate governance standards, as well as striving for excellence in our service levels for all stakeholders.

STM is an ambitious business with a growth strategy and first mover advantage in some relatively untapped markets. The STM management team is conscious that the market expectations for 2017 will come down from the previous significant uplift in profitability anticipated, but management are confident that there will continue to be growth in profitability in 2017.

I look forward to updating the market on our achievements during the course of the year.

Alan Kentish

**Alan Kentish**
*Chief Executive Officer*
*14 March 2017*

# DIRECTORS' REPORT

The Directors of STM Group Plc present their Report for the year to 31 December 2016 together with the accounts of the Group and the independent auditors' report for the period. These will be laid before the shareholders at the Annual General Meeting to be held on 24 May 2017.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Group during the year was the structuring and administration of clients' assets.

## RESULT AND DIVIDENDS

The profit for the year of £2,655,000 (2015: £2,255,000) has been transferred to reserves.

In respect of the year ended 31 December 2016 an interim dividend of 0.5p per share was paid in November 2016 and the Directors recommend that a final dividend of 1.0p per share be paid in June 2017. For the year ended 31 December 2015 a final dividend of 0.9p per share was paid in June 2016.

## DIRECTORS

Details of the Directors of the Company who served during the period and to date, and their interests in the shares of the Company were:

Alan Roy Kentish

Michael Ross Riddell

Therese Gemma Neish

Colin Douglas Porter (Resigned 31 March 2016)

Jonathan Shearman (Resigned 30 June 2016)

Malcolm Berryman (Appointed 1 May 2016)

Robin Ellison (Appointed 22 December 2016)

Alan Kentish has an interest in 7,218,817 ordinary shares – these shares are held in the name of Clifton Participations Inc and form part of the assets of the Perros Trust of which Alan Kentish is a potential beneficiary.

Therese Neish has an interest in 492,756 ordinary shares.

Michael Riddell has an interest in 146,783 ordinary shares.

As Malcolm Berryman and Robin Ellison have been appointed as Directors since the last Annual General Meeting, resolutions to confirm their appointment will be tabled at the Annual General Meeting.

In accordance with the Articles of Association, Alan Roy Kentish and Therese Gemma Neish retire as Directors of the Company at the Annual General Meeting and, being eligible, offer themselves for re-election.

## POLITICAL AND CHARITABLE DONATIONS

The Group's charitable donations for the period amounted to £7,400 (2015: £10,303). There were no political contributions in either period.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

These financial statements were prepared under IFRS as adopted by the European Union and interpretations adopted by the International Accounting Standards Board ("IASB").

## SUBSTANTIAL INTERESTS

Save as disclosed in the following table, the Directors are not aware of any person who directly or indirectly is interested in 3% or more of the issued ordinary share capital of the Company as at 28 February 2017 or any persons who, directly or indirectly, jointly or separately, exercise or could exercise control over the Company.

## ISSUED ORDINARY SHARE CAPITAL OF THE COMPANY

At 28 February 2017

| | % |
|---|---|
| CF Miton UK Smaller Companies | 14.06 |
| Septer Limited | 12.79 |
| Clifton Participations Inc and Alan Kentish | 12.15 |
| International Financial Options Limited | 6.31 |
| River and Mercantile Asset Management LLP | 5.64 |
| Miton UK Microcap Trust plc | 3.56 |
| KAS Bank NV | 3.55 |

It should be noted that due to the regulation of various subsidiaries by their respective financial services regulatory body, shareholders holding more than 10% may be required to obtain prior approval from the relevant regulator before being accepted as a shareholder.

## INDEPENDENT AUDITORS

KPMG Audit LLC were appointed as auditors to the Company during the year and, being eligible, have expressed their willingness to continue in office. A resolution to re-appoint KPMG Audit LLC as independent auditors of the Company will be proposed at the Annual General Meeting.

## ANNUAL GENERAL MEETING

The Notice of the Annual General Meeting to be held on 24 May 2017 is set out on page 49.

By order of the Board

Elizabeth A Plummer

**Elizabeth A Plummer**

*Company Secretary*
*18 Athol Street*
*Douglas*
*Isle of Man IM1 1JA*

*14 March 2017*

# BOARD OF DIRECTORS

### MICHAEL ROSS RIDDELL CA

NON-EXECUTIVE CHAIRMAN

Michael is the Managing Director and 50% shareholder of Greystone Trust Company, which he joined in 2005. Michael is a Chartered Accountant and has a degree in Economics from the University of Victoria. Michael started his career in audit in 1982, and worked in Canada, Saudi Arabia and the Cayman Islands, and then worked in banking, funds, insurance and personal trusts in Canada and the Cayman Islands from 1991 - 2001.

### ALAN ROY KENTISH ACA ACII AIRM

CHIEF EXECUTIVE OFFICER

Alan qualified as a Chartered Accountant in 1989 with Ernst & Whinney, specialising in the financial services industry. In 1993 he moved to Ernst & Young, Gibraltar and shortly afterwards qualified as an Associate of the Chartered Insurance Institute. In 1997, Alan joined BDO Fidecs and set up its insurance management division, before moving on to the role of Chief Financial Officer where (in 2007) he oversaw the flotation of the business. Prior to becoming CEO in 2016 Alan held the role of Director of Product and Business Development, with a focus on driving STM's suite of proprietary products and Group revenue.

### THERESE GEMMA NEISH BA (HONS) FCCA

CHIEF FINANCIAL OFFICER

Therese trained with KPMG where she qualified as a Chartered Certified Accountant in 2003, having previously studied Accountancy & Financial Studies at Exeter University. Therese joined STM in 2003 in the Insurance Management division where she managed and sat on the Board of various insurance companies. In 2009 Therese became Group Financial Controller and was appointed Chief Financial Officer in January 2014.

### MALCOLM BERRYMAN

NON-EXECUTIVE DIRECTOR

Malcolm is currently a Non-Executive Director at H&T Group PLC and Southern Health NHS Foundation Trust. He has previously been a Non-Executive Director of two life assurance companies and runs his own consultancy business primarily involved in life and general insurance. Between 1990 and 2005, he was Chief Executive of two insurers, Liverpool Victoria and Crown Financial Management. He qualified as an Actuary in 1983.

### ROBIN ELLISON

NON-EXECUTIVE DIRECTOR

Robin is a practising solicitor and academic. He is a consultant with Pinsent Masons, an international law firm where he specialises in the development of pensions and related financial services products. He also acts for a number of foreign governments and government agencies, is a Director on the boards of several companies and is trustee of several pension funds. He was a founder of the Association of Pensions Lawyers and a Chairman of the National Association of Pension Funds. Robin is also the author of numerous books on pensions.

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements are required to give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time its financial position. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

# DIRECTORS' REMUNERATION REPORT

| **Director** | Remuneration | Notes |
|---|---|---|
| Executive Directors | | |
| Alan Kentish | £200,000 | a,b |
| Therese Neish | £150,000 | a,b |
| Colin Porter | £62,500 | a,b |
| Non-Executive Directors | | |
| Michael Riddell | £50,000 | b,c |
| Jonathan Shearman | £18,000 | b,d |
| Malcolm Berryman | £24,000 | b |

Notes

a. The Executive Directors are also entitled to a bonus of £nil as at 31 December 2016.
b. No Directors received any benefits in the form of either pension contributions or share based incentives.
c. Greystone Trust Company Limited invoices the Company for the Director services provided by Michael Riddell.
d. AmorethanD Limited invoiced the Company for the Director services provided by Jonathan Shearman.

# CORPORATE GOVERNANCE

The Board is committed to achieving high standards of corporate governance, integrity and business ethics. Under the AIM Rules the Group is not required to comply with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in September 2014 (the 'Code'). The Board has taken into consideration the Guidance for Smaller Quoted Companies in the Code produced by the Quoted Companies Alliance and has taken steps to apply the principles of the Code in so far as they can be applied practically, given the size of the Group and the nature of its operations.

The Board is responsible for establishing the strategic direction of the Group, monitoring the Group's trading performance, and appraising and executing development and acquisition opportunities. During the year the Company held regular Board meetings at which financial and other reports were considered and, where appropriate, voted on. It has also held ad hoc meetings, as required, to deal with specific issues.

Details of the Directors' beneficial interests in Ordinary Shares is set out in the Directors' Report. The Directors intend to comply with Rule 21 of the AIM Rules and the Market Abuse Regulations 2014 relating to Directors' dealings and will take all reasonable steps to ensure compliance by any employees of the Company to whom regulations apply. The Company has, in addition, adopted the Share Dealing Code for dealings in its Ordinary Shares by Directors and senior employees.

The Board comprises two executive and three independent Non-Executive Directors and the Board committees are comprised only of Non-Executive Directors. The Non-Executive Chairman and Chief Executive Officer have separate and clearly defined roles. The Chairman is responsible for running the Board and the Chief Executive Officer is responsible for the day to day management of the Group and for delivering the key objectives of the business.

The Board has established an audit and risk committee and a remuneration committee both with formally delegated duties and responsibilities. The audit and risk committee comprises Michael Riddell, as the Chairman, together with Malcolm Berryman and Robin Ellison and the remuneration committee comprises Malcolm Berryman, as the Chairman, Michael Riddell and Robin Ellison.

The terms of reference for the audit and risk committee include the following requirements:

- To monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them;
- To review the Group's internal financial controls together with the Group's internal control and risk management systems;
- To monitor and review the external auditor's independence and objectivity and to make recommendations in relation to the appointment, re-appointment and removal of the external auditor.

The terms of reference for the remuneration committee provide that it will review the scale and structure of the Executive Directors' remuneration and the terms of their service contracts. The remuneration and terms and conditions of appointment of the Non-Executive Directors will be set by the Board. No Director may participate in any meeting at which discussion or decision regarding his own remuneration takes place.

The Directors do not consider that, given the size of the Board, it is appropriate at this stage to have a nomination committee.

# REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC, TO THE MEMBERS OF STM GROUP PLC

We have audited the financial statements of STM Group Plc for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of cash flows, the statement of consolidated changes in equity, the statement of company changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union (IFRSs).

This report is made solely to the Company's members, as a body. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 18, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the consolidated financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## OPINION ON THE FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended; and
- have been properly prepared in accordance with IFRSs.

KPMG

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

14 March 2017

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year from 1 January 2016
to 31 December 2016

| | Notes | **Year ended 31 December 2016 £000** | Year ended 31 December 2015 £000 |
|---|---|---|---|
| Revenue | 7 | 17,433 | 16,179 |
| Administrative expenses | 9 | (14,318) | (13,078) |
| Profit before other items | 10 | **3,115** | 3,101 |
| OTHER ITEMS | | | |
| Finance costs | | (87) | (147) |
| Depreciation and amortisation | | (273) | (249) |
| Profit before taxation | | **2,755** | 2,705 |
| Taxation | 11 | (382) | (409) |
| Profit after taxation | | **2,373** | 2,296 |
| OTHER COMPREHENSIVE INCOME | | | |
| Foreign currency translation differences for foreign operations | | 282 | (41) |
| Total other comprehensive income | | 282 | (41) |
| Total comprehensive income for the year | | **2,655** | 2,255 |
| Earnings per share basic (pence) | 19 | 3.99 | 3.99 |
| Earnings per share diluted (pence) | 19 | **3.87** | 3.79 |

There have been no discontinued activities in the year. Accordingly, the above results relate solely to continuing activities.

The notes on pages 26 to 48 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

| | Notes | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 889 | 837 |
| Intangible assets | 13 | 18,544 | 16,832 |
| Investments | 14 | 792 | 708 |
| **Total non-current assets** | | **20,225** | 18,377 |
| **Current assets** | | | |
| Investments | 14 | 4,239 | — |
| Accrued income | | 1,214 | 1,809 |
| Trade and other receivables | 15 | 5,193 | 4,193 |
| Cash and cash equivalents | 16 | 11,869 | 8,036 |
| **Total current assets** | | **22,515** | 14,038 |
| **Total assets** | | **42,740** | 32,415 |
| **EQUITY** | | | |
| Called up share capital | 17 | 59 | 59 |
| Share premium account | 17 | 22,372 | 22,372 |
| Reserves | | 5,231 | 3,614 |
| **Total equity attributable to equity shareholders** | | **27,662** | 26,045 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Liabilities for current tax | | 1,070 | 1,271 |
| Trade and other payables | 20 | 10,708 | 5,099 |
| **Total current liabilities** | | **11,778** | 6,370 |
| **Non-current liabilities** | | | |
| Other payables | 21 | 3,300 | — |
| **Total non-current liabilities** | | 3,300 | — |
| **Total liabilities and equity** | | **42,740** | 32,415 |

The notes on pages 26 to 48 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 14 March 2017 and were signed on its behalf by:

**AR Kentish**
Chief Executive Officer

**TG Neish**
Chief Financial Officer

14 March 2017

# COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

| | Notes | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 498 | 625 |
| Intangible assets | 13 | 205 | 98 |
| Investments | 14 | 21,442 | 16,052 |
| Total non-current assets | | **22,145** | 16,775 |
| Current assets | | | |
| Trade and other receivables | 15 | 6,934 | 8,214 |
| Cash and cash equivalents | 16 | 204 | 452 |
| Total current assets | | **7,138** | 8,666 |
| Total assets | | **29,283** | 25,441 |
| EQUITY | | | |
| Called up share capital | 17 | 59 | 59 |
| Share premium account | 17 | 22,372 | 22,372 |
| Reserves | | (3,144) | (3,097) |
| Total equity attributable to equity shareholders | | **19,287** | 19,334 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 20 | 6,696 | 6,107 |
| Total current liabilities | | **6,696** | 6,107 |
| Non-current liabilities | | | |
| Other payables | 21 | 3,300 | — |
| Total non-current liabilities | | **3,300** | — |
| Total liabilities and equity | | **29,283** | 25,441 |

The notes on pages 26 to 48 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 14 March 2017 and were signed on its behalf by:

**AR Kentish**
Chief Executive Officer

**TG Neish**
Chief Financial Officer

14 March 2017

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year from 1 January 2016
to 31 December 2016

| | Notes | **Year ended 31 December 2016 £000** | Year ended 31 December 2015 £000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit for the year before tax | | 2,755 | 2,705 |
| ADJUSTMENTS FOR: | | | |
| Depreciation and amortisation | 12,13 | 262 | 246 |
| Loss on sale of fixed asset | 12 | 11 | 3 |
| Taxation paid | | (583) | (199) |
| Unrealised (gain)/loss in investments | | (291) | 29 |
| Share based payments | | 34 | — |
| (Increase)/decrease in trade and other receivables | 15 | (472) | 582 |
| Decrease in accrued income | | 595 | 349 |
| Decrease in trade and other payables | 20,21 | (1,154) | (506) |
| Net cash from operating activities | | **1,157** | 3,209 |
| INVESTING ACTIVITIES | | | |
| Acquisition of property, plant and equipment | 12 | (204) | (66) |
| Consideration paid on acquisition | 6 | (4,235) | — |
| Cash acquired on acquisition | 6 | 5,018 | — |
| Acquisition of treasury shares | | (45) | — |
| Increase in intangibles | 13 | (113) | (68) |
| Net cash used in investing activities | | **421** | (134) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Bank loan | 21 | 3,300 | — |
| Loan note repayments | 20 | (300) | (700) |
| Dividends paid | 17 | (832) | — |
| Net cash from financing activities | | 2,168 | (700) |
| Increase in cash and cash equivalents | | **3,746** | 2,375 |
| RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS | | | |
| Analysis of cash and cash equivalents during the year | | | |
| Increase in cash and cash equivalents | | 3,746 | 2,375 |
| Translation of foreign operations | | 87 | (50) |
| Balance at start of year | | 8,036 | 5,711 |
| Balance at end of year | 16 | **11,869** | 8,036 |

## STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year from 1 January 2016
to 31 December 2016

| | Share capital £000 | Share premium £000 | Retained earnings £000 | Treasury shares £000 | Translation reserve £000 | Share based payments reserve £000 | **Total £000** |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 | 53 | 20,828 | 1,583 | (206) | (9) | — | 22,249 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | | | | | | |
| Profit for the year | — | — | 2,296 | — | — | — | 2,296 |
| Other comprehensive income | | | | | | | |
| Foreign currency translation differences | — | — | — | — | (41) | — | (41) |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Shares issued in the year | 6 | 1,544 | — | — | — | — | 1,550 |
| Exchange gain on equity | — | — | — | — | (9) | — | (9) |
| Treasury shares purchased | — | — | — | — | — | — | — |
| At 31 December 2015 | 59 | 22,372 | 3,879 | (206) | (59) | — | **26,045** |
| Balance at 1 January 2016 | 59 | 22,372 | 3,879 | (206) | (59) | — | **26,045** |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | | | | | | |
| Profit for the year | — | — | 2,373 | — | — | — | 2,373 |
| Other Comprehensive income | | | | | | | |
| Foreign currency translation differences | — | — | — | — | 282 | — | 282 |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Dividend paid | — | — | (832) | — | — | — | (832) |
| Exchange gain on equity | — | — | — | — | (195) | — | (195) |
| Share based payments | — | — | — | — | — | 34 | 34 |
| Treasury shares purchased | — | — | — | (45) | — | — | (45) |
| At 31 December 2016 | **59** | **22,372** | **5,420** | **(251)** | **28** | **34** | **27,662** |

## STATEMENT OF COMPANY CHANGES IN EQUITY

| | Share capital £000 | Share premium £000 | Retained earnings £000 | Share based payments £000 | **Total £000** |
|---|---|---|---|---|---|
| Balance at 1 January 2015 | 53 | 20,828 | (2,950) | — | 17,931 |
| Loss for the year | — | — | (147) | — | (147) |
| Shares issued in year | 6 | 1,544 | — | — | 1,550 |
| Dividend paid | — | — | — | — | — |
| 31 December 2015 | 59 | 22,372 | (3,097) | — | **19,334** |
| Balance at 1 January 2016 | 59 | 22,372 | (3,097) | — | **19,334** |
| Profit for the year | — | — | 751 | — | 751 |
| Shares issued in year | — | — | — | — | — |
| Share based payments | — | — | — | 34 | 34 |
| Dividend paid | — | — | (832) | — | (832) |
| 31 December 2016 | **59** | **22,372** | **(3,178)** | **34** | **19,287** |

## 1. REPORTING ENTITY

STM Group Plc (the "Company") is a company incorporated and domiciled in the Isle of Man and is traded on the London Stock Exchange AIM. The address of the Company's registered office is 18 Athol Street, Douglas, Isle of Man, IM1 1JA. The consolidated financial statements of the Group as at, and for the year ended, 31 December 2016 comprise the Company and its subsidiaries as per note 26 (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in financial services.

## 2. BASIS OF PREPARATION

The financial information has been prepared on the basis of the accounting policies set out in note 3.

### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and interpretations adopted by the International Accounting Standards Board ("IASB") and in accordance with Isle of Man law.

### b. Functional and presentational currency

These consolidated financial statements are presented in Pounds Sterling (£) which is the Company's functional currency.

### c. Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The estimates, assumptions and key judgement areas which have a significant risk of resulting in a material adjustment to the carrying value of assets and liabilities are included in the following notes:

| | |
|---|---|
| Note 3c – | Revenue: a) the recognition upfront of 100% of first year revenues deriving from pension trustee and administration fees; b) the recognition upfront (and deferral of the remainder) of 50% of the annual fees from pension trustee and administration fees from the second year onwards |
| Note 3d – | Accrued income: the recognition of income prior to the submission of an invoice based on the estimated amount recoverable for work performed before each year end |
| Note 3s – | Contingent liabilities |
| Note 6 – | Acquisition of subsidiary: fair value of the consideration transferred (contingent consideration) and fair value of assets acquired and liabilities assumed on acquisition – there is significant subjectivity in the determination of the fair value of the asset, if any, that should be recognised in relation to any life assurance book purchased as well as the fair value of any client portfolio asset recognised and any insurance technical reserves |
| Notes 6 & 20 – | Insurance technical reserve: this is calculated based on actuarial assumptions by the insurance companies' appointed independent actuary and is highly subjective |
| Note 12 – | Depreciation of property, plant and equipment: depreciation rates used and the fact that they are on a reducing balance basis |
| Note 13 – | Measurement of goodwill: the underlying assumptions used, and other critical judgemental considerations including the allocation of cash generating units, in determining whether goodwill has been impaired at each annual impairment review |
| Note 23 – | Provisions: judgement applied in determining the conditions surrounding the debtors to determine whether there is objective evidence of impairment |

### d. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except where investments and other financial instruments are held at fair value.

### e. Employee benefit trusts

The Company contributes to an employee benefit trust. It is deemed that this trust is controlled by the Company and is therefore included within the consolidated financial statements of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### a. Basis of consolidation

*i. Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

*ii. Business combinations*

Business combinations are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred, except if related to the issue of debt. Any contingent consideration is measured at fair value at the date of acquisition and re-measured at each reporting date.

*iii. Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### b. Foreign currency

*i. Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency of the Group at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the exchange rate at that date. The resulting gain or loss is recognised in the statement of comprehensive income.

*ii. Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Pounds Sterling (£) at exchange rates at the reporting date.

Foreign exchange gains and losses arising from monetary items that in substance form part of the net investment in its foreign operations are recognised in other comprehensive income and are presented within equity in the foreign currency translation reserve.

### c. Revenue

Revenue is derived from the provision of services as described in note 5 and is recognised in the statement of comprehensive income in proportion to the stage of completion of the services at the reporting date on an accruals basis.

Revenue derived from pension trustee and administration fees is split between the Initial Fee and the Management Fee. In the first year of membership the initial and management fees are recognised in full at the time of processing the application so as to reflect the time incurred in accepting the new member and processing their application. In subsequent years a proportion of the management fee is reflected as income at the time of invoicing to reflect the timing of the work carried out for the member. The other proportion is amortised over the period to the next renewal date.

### d. Accrued income

Accrued income represents billable time spent on the provision of services to clients which has not been invoiced at the reporting date. Accrued income is recorded at the staff charge-out rates in force at the reporting date, less any specific provisions against the value of accrued income where recovery will not be made in full. In terms of pension business the accrued income is based on the number of applications received but for which an invoice has not been raised yet.

### e. Property, plant and equipment

*i. Recognition and measurement*

Items of property and office equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and bringing it into use.

Gains and losses on disposal of an item of property and office equipment are determined by comparing the proceeds from disposal with the carrying amount of property and office equipment, and are recognised net within other income in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### e. Property, plant and equipment *(continued)*

*ii. Depreciation*

Depreciation is recognised in the statement of comprehensive income on a reducing balance basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term or the estimated useful life. Depreciation commences once assets are in use.

The rates in use are as follows:

| | |
|---|---|
| Office equipment | 10% - 25% on a reducing balance basis |
| Motor vehicles | 25% on a reducing balance basis |
| Leasehold improvements | Over the life of the leases |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

### f. Financial instruments

Financial assets and liabilities are recognised on the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument. The Group classifies non-derivative financial assets and liabilities into financial assets and liabilities held at fair value through profit and loss and loans and receivables.

*i. Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade and other receivables and are recognised at amortised cost. Generally, this results in their recognition at nominal value less any allowance for any doubtful debts.

All loans and borrowings are initially recognised at the fair value of the consideration received. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost.

*ii. Fair value through profit and loss*

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

*iii. Cash and cash equivalents*

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand with an original maturity of three months or less.

*iv. Share capital*

Ordinary shares are classified as equity. Costs directly attributable to the issue of the shares are recognised as a deduction from share premium.

Treasury shares are those shares purchased by the STM Group Employee Benefit Trust ("EBT") for distribution to executives and senior management within the Group, which have yet to be allotted to specific employees. The consideration paid, including any attributable incremental costs (net of income taxes), is deducted from the reserves attributable to the Group's equity holders until the shares are cancelled or reissued via the Treasury Reserve.

### g. Operating leases

Payments under operating leases are charged directly to the income statement on a straight-line basis over the term of the lease.

### h. Finance leases

Assets held under finance leases are capitalised at their initial cost. Rentals are set against accounts payable on the straight-line basis.

### i. Employee benefits

The Group operates a defined contribution pension plan. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### j. Finance income and expenses

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues using the effective interest method.

Finance expense comprises interest on borrowings. Interest expense is charged to the income statement using the effective interest method.

### k. Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement.

Current tax is the expected tax payable on the taxable income for the year using enacted tax rates, updated for previous period adjustments.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes. Deferred tax is not provided in respect of goodwill. Deferred tax is measured at the tax rates expected to be enacted when they reverse.

### l. Intangible assets

*i. Goodwill*

Goodwill that arises on the acquisitions of subsidiaries is included in intangible assets. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the acquiree. Goodwill is measured at cost less accumulated impairment losses. An annual impairment review is undertaken.

*ii. Product development*

Product development relates to internal development expenditure incurred in the development of the Group's new products. When these costs meet the recognition criteria of IAS 38 "Intangible Assets" they are capitalised and amortised on a straight-line basis over a three year period from product launch.

*iii. Client portfolio*

Client portfolio acquired in a business combination is carried at cost less accumulated amortisation and any accumulated impairment losses. This is amortised on a straight-line basis over the estimated useful life. In the case of London & Colonial Holdings Ltd this has been assessed at ten years.

### m. Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in the statement of comprehensive income.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Any impairment losses would be recognised in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

The decrease in impairment loss is reversed through the statement of comprehensive income.

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill which has an indefinite life, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### n. Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise the effect of outstanding options. The effects of potential ordinary shares are reflected in diluted EPS only when their inclusion in the calculation would decrease EPS or increase the loss per share.

### o. Deferred income

Deferred income relates to the element of fixed fee income that has been billed in advance which has not been earned as at the year end and is released over the period to which it relates.

### p. Borrowing costs

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

### q. Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation.

### r. New standards and interpretations

The following new standards and interpretations (as endorsed by the European Union - "EU") are mandatory for the first time this year. However, following consideration and review they are believed to either not be relevant to the Group or do not have a significant impact on the Group's financial statements apart from additional disclosures:

- IFRS 14 Regulatory Deferral Accounts
- IFRS 11 (amended) Accounting for Acquisitions on Interest in Joint Operations
- IAS 16 (amended) Clarification of Acceptable of Methods of Depreciation and Amortisation
- IAS 38 (amended) Clarification of Acceptable of Methods of Depreciation and Amortisation
- IAS 16 (amended) Agriculture: Bearer Plants
- IAS 41 (amended) Agriculture: Bearer Plants
- IAS 27 (amended) Equity Method in Separate Financial Statements
- IFRS 10 (amended) Investment Entities: Applying the Consolidation Exception
- IFRS 12 (amended) Investment Entities: Applying the Consolidation Exception
- IAS 28 (amended) Investment Entities: Applying the Consolidation Exception
- IAS 1 (amended) Disclosure Initiative
- Annual Improvements to IFRSs 2012-2014 Cycle - various standards

In addition a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these consolidated financial statements. None of these are expected to have an effect on the consolidated financial statements of the Group.

### s. Disputes and potential legal matters

The Group may at times be involved in disputes arising in the ordinary course of business. In accordance with applicable accounting requirements, the Group provides for potential losses that may arise out of these disputes when the potential losses

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

are probable and estimable. Disputes in respect of legal matters are subject to many uncertainties and the outcome of individual matters cannot be predicted with certainty.

### t. Dividend

Dividends are recognised in the accounting period in which they are authorised and paid. The interim dividend is recognised when it is paid and the final dividend is recognised when it has been approved by shareholders at the Annual General Meeting.

### u. Share based payments

The grant-date fair value of equity settled share payment arrangements granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. Where awards have a market based performance condition attached the accounting charge reflects the expected achievement against targets and there is no true-up for differences between expected and actual outcomes.

## 4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### a. Intangible assets - goodwill

The fair value of goodwill acquired in a business combination is based on the excess of the fair value of the consideration over the fair value of the underlying assets and liabilities acquired less any impairment considered necessary.

### b. Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on carrying values which approximates its fair value at acquisition date. The carrying value of property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

### c. Long term business reserve

The long term business provisions included in the Group accounts relate to the insurance companies and are determined by the Appointed Actuary. This reserve is calculated using assumptions based on factors considered by the actuary and the management believe this is equal to the fair value.

### d. Investments

The financial instruments held are not traded in an active market and therefore the fair value is established by the Directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants.

## 5. SEGMENTAL INFORMATION

STM Group has five reportable segments: Corporate Trustee Services, Pensions, Insurance Management, Life Assurance, and Other Services. Each segment is defined as a set of business activities generating a revenue stream and offering different services to other operating segments. The Group's operating segments have been determined based on the management information reviewed by the CEO and Board of Directors.

The Board assesses the performance of the operating segments based on turnover generated. The performance of the operating segments is not measured using costs incurred as the costs of certain segments within the Group are predominantly centrally controlled and therefore the allocation of these is based on utilisation of arbitrary proportions. Management believe that this information and consequently profitability could potentially be misleading and would not enhance the disclosure above.

The following table presents the turnover information regarding the Group's operating segments:

| | Turnover | |
|---|---|---|
| Operating Segment | **31 December 2016 £000** | 31 December 2015 £000 |
| Pensions | 9,229 | 8,587 |
| Corporate Trustee Services | 4,366 | 5,050 |
| Insurance Management | 446 | 523 |
| Life Assurance | 2,806 | 1,399 |
| Other Services | 586 | 620 |
| | **17,433** | 16,179 |

Analysis of the Group's turnover information by geographical location is detailed below:

| | Turnover | |
|---|---|---|
| Geographical Segment | **31 December 2016 £000** | 31 December 2015 £000 |
| Gibraltar | 7,646 | 6,574 |
| Jersey | 2,462 | 2,704 |
| Malta | 6,542 | 6,315 |
| Other | 783 | 586 |
| | **17,433** | 16,179 |

## 6. ACQUISITION OF SUBSIDIARY

On 21 October 2016, the Company acquired 100% of the ordinary shares and voting interests in London & Colonial Holdings Limited (LCH).

LCH is a service-led independent financial services group with its head office in Haywards Heath, UK, offering SIPP products in the United Kingdom; Qualifying Recognised Overseas Pension Schemes ("QROPS") in Gibraltar and a life assurance business in Gibraltar. The acquisition is highly complementary to STM's existing business and strategy and will contribute to the growth of STM. It provides critical mass for STM's life assurance business as well as establishing STM in the UK SIPP market, the successful realisation of an important strategic objective of the Company. It will also benefit from cost synergies, economies of scale and a good quality management team that has been retained by the Company. All of these factors contribute to the goodwill recognised.

The acquisition has been accounted for using the acquisition method. Transaction costs incurred on the acquisition total £88,549 and have been expensed within administrative expenses in the consolidated statement of comprehensive income.

Consideration for the acquisition is broken down as follows:

| | **£000** |
|---|---|
| Initial cash payment | 4,135 |
| Second cash payment | 100 |
| Contingent consideration | 1,150 |
| | **5,385** |

The contingent consideration is payable within the first year following acquisition and is dependent on certain regulatory capital requirements being met and standard indemnities provided by the Sellers. Whilst it is not possible to determine the exact amount of the contingent consideration, the Group estimates the fair value of this to be the maximum amount payable, being £1,150,000.

The fair value of the identifiable assets and liabilities of LCH as at the date of the acquisition was:

| | **Fair value recognised on acquisition £000** | Fair value adjustments £000 | Previous carrying value £000 |
|---|---|---|---|
| Investments | 4,032 | — | 4,032 |
| Property, plant and equipment | 79 | — | 79 |
| Client portfolio | 1,000 | 1,000 | — |
| Product development | 106 | — | 106 |
| Cash at bank | 5,018 | — | 5,018 |
| Trade and other receivables | 528 | — | 528 |
| Insurance technical reserves | (3,305) | — | (3,305) |
| Accruals and deferred income | (1,907) | — | (1,907) |
| Trade and other payables | (701) | — | (701) |
| Total identifiable net assets at fair value | **4,850** | 1,000 | 3,850 |

As at the reporting date the actuarially calculated insurance technical reserve was £2,805,000.

At acquisition the Group performed an exercise to identify the fair value of intangible assets acquired. As a result of that exercise, a client portfolio asset of £1,000,000 relating to the UK SIPP business London & Colonial Services Limited was recognised. In respect to the life assurance business acquired, London & Colonial Assurance Plc, the Group determined that the fair value of the assets and liabilities was equal to the carrying value. In respect of the intangible asset and the insurance technical reserve at acquisition date this was actuarially calculated by the Group's Appointed Actuary. The intangible asset was valued at zero – as noted in note 2c, that fair value was arrived based on a number of inputs which are the subject of management estimation.

From the date of acquisition LCH has contributed £1,258,000 to revenue and £670,000 to the Group profit. £500,000 of both revenue and profit relates to the movement in the insurance technical reserve between acquisition date and 31 December 2016. If the acquisition had occurred on 1 January 2016, management estimates that consolidated revenue would have been £4,118,000 and consolidated profit would have been £393,000.

## 6. ACQUISITION OF SUBSIDIARY *(continued)*

Goodwill arising from the acquisition has been recognised as follows:

| | £000 |
|---|---|
| Total acquisition cost | 5,385 |
| Fair value of identifiable net assets | (4,850) |
| Goodwill | **535** |

## 7. REVENUE

| | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Revenue from administration of assets | 17,433 | 16,179 |
| Total revenues | **17,433** | 16,179 |

## 8. LIFE ASSURANCE OPERATING SEGMENT

These consolidated financial statements include the results for STM Life Assurance PCC Plc and London & Colonial Assurance Plc, two 100% owned subsidiaries whose principal activities are that of the provision of life assurance services. The Companies have a licence under the Financial Services (Insurance Companies) Act by the Gibraltar Financial Services Commission to carry on linked long term insurance business.

The financial statements for these Companies include the financial performance of both the long term fund and shareholders' funds. For the purposes of these consolidated financial statements, however, only the shareholders' funds and surplus on the long term fund have been included as reflecting the movement and balances in the long term fund would distort the Group's results.

Within total revenue of the Group of £17,433,000 there is an amount of £2,806,000 relating to revenues attributable to the life assurance businesses. The financial performance and balance on the long term fund for each respective Company is as follows:

STM LIFE ASSURANCE PCC PLC

| Technical Account – Long term business | Year ended 31 December 2016 £000 | Year ended 31 December 2015 £000 |
|---|---|---|
| Gross premiums written | 173,876 | 129,515 |
| Policy withdrawals | (23,245) | (17,415) |
| Net operating expenses | (85,268) | (47,679) |
| Change in long term business provisions | (3) | 11 |
| Increase in long term reserves | (63,574) | (62,749) |
| Surplus on long term fund | **1,786** | 1,683 |

| Assets held to cover liabilities | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Open market value | 239,435 | 164,834 |
| Cost | 255,644 | 175,279 |

## 8. LIFE ASSURANCE OPERATING SEGMENT *(continued)*

### STM LIFE ASSURANCE PCC PLC *(continued)*

| Technical provision for liabilities | **31 December 2016 £000** | 31 December 2015 £000 |
|---|---|---|
| Balance at start of year | 164,834 | 104,821 |
| Increase in technical provision for liabilities | 63,574 | 62,749 |
| Foreign exchange movement on liabilities | 11,027 | (2,736) |
| Balance at end of year | **239,435** | 164,834 |

The provision for technical liabilities is equal to the open market value of the specified assets attached to all outstanding policies on the valuation date.

### LONDON & COLONIAL ASSURANCE PLC

Following the acquisition of London & Colonial Assurance Plc their financial year end was changed from 30 September to 31 December. Whilst the performance included in the Group results relates to the period since acquisition the information below covers the 15 month period to 31 December 2016. No comparatives have been provided as this was acquired during the year.

| Technical account – long term business | **31 December 2016 £000** |
|---|---|
| Investment income | 7,509 |
| Unrealised gain on investments | 37,535 |
| Other technical income - net | 1,327 |
| Net operating expenses | (1,133) |
| Change in long term business provision | 500 |
| Change in long term reserves | (45,043) |
| Surplus on long term fund | **695** |

| Assets held to cover liabilities | **31 December 2016 £000** |
|---|---|
| Open market value | 352,382 |
| Cost | 234,552 |

| Technical provision for liabilities | **31 December 2016 £000** |
|---|---|
| Balance at start of year | 367,189 |
| Increase in technical provision for liabilities | 45,043 |
| Effects of transfers from investment contracts | (59,850) |
| Balance at end of year | **352,382** |

The provision for technical liabilities is equal to the open market value of the specified assets attached to all outstanding policies on the valuation date.

## 9. ADMINISTRATIVE EXPENSES

Included within administrative expenses are personnel costs as follows:

| | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Wages and salaries | 7,078 | 6,353 |
| Social Insurance costs | 396 | 330 |
| Pension contributions | 110 | 61 |
| Share based payments | 34 | — |
| Total personnel expenses | **7,618** | 6,744 |

Average number of employees

| Group | 31 December 2016 Number | 31 December 2015 Number |
|---|---|---|
| Average number of staff employed (including Executive Directors) | **173** | 163 |

| Company | 31 December 2016 Number | 31 December 2015 Number |
|---|---|---|
| Average number of staff employed (including Executive Directors) | **12** | 14 |

## 10. PROFIT BEFORE OTHER ITEMS

Profit before other items of £3,115,000 (31 December 2015 £3,101,000), was arrived at after charging the following to the income statement:

| | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Directors' remuneration | 527 | 697 |
| Auditors' remuneration | 158 | 165 |
| Operating lease rentals | 651 | 646 |

## 11. TAXATION

| | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Current tax expense | 382 | 409 |
| Release from prior years | — | — |
| Total tax expense | **382** | 409 |

| Reconciliation of existing tax rate | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Profit for the year | 2,755 | 2,705 |
| Total income tax expense | **382** | 409 |
| Profit before tax | 2,755 | 2,705 |
| Income tax using the Company's domestic rate - 0% | — | — |
| Effect of tax rates in other jurisdictions | 382 | 409 |
| Total tax expense | **382** | 409 |

As at the statement of financial position date various subsidiaries had tax losses carried forward which are based on tax computations prepared and submitted but not yet agreed by the tax authorities. These amounts are not material.

## 12. PROPERTY, PLANT AND EQUIPMENT

| Group | Motor Vehicles £000 | Office Equipment £000 | Leasehold Improvements £000 | **Total £000** |
|---|---|---|---|---|
| Costs | | | | |
| As at 1 January 2015 | 12 | 1,543 | 876 | 2,431 |
| Additions at cost | — | 66 | — | 66 |
| Disposals | — | (10) | — | (10) |
| As at 31 December 2015 | **12** | **1,599** | **876** | **2,487** |
| As at 1 January 2016 | 12 | 1,599 | 876 | 2,487 |
| Acquired through business combination | 3 | 58 | 18 | 79 |
| Additions at cost | 15 | 189 | — | 204 |
| Disposals | (15) | (32) | — | (47) |
| As at 31 December 2016 | **15** | **1,814** | **894** | **2,723** |
| Depreciation | | | | |
| As at 1 January 2015 | 10 | 814 | 633 | 1,457 |
| Charge for the year | 1 | 118 | 81 | 200 |
| Disposals | — | (7) | — | (7) |
| As at 31 December 2015 | **11** | **925** | **714** | **1,650** |
| As at 1 January 2016 | 11 | 925 | 714 | 1,650 |
| Charge for the year | 3 | 136 | 81 | 220 |
| Disposals | (11) | (25) | — | (36) |
| As at 31 December 2016 | **3** | **1,036** | **795** | **1,834** |
| Net Book Value | | | | |
| As at 31 December 2016 | **12** | **778** | **99** | **889** |
| As at 31 December 2015 | 1 | 674 | 162 | 837 |

| Company | Office Equipment £000 | Leasehold Improvements £000 | **Total £000** |
|---|---|---|---|
| Costs | | | |
| As at 1 January 2015 | 696 | 567 | 1,263 |
| Additions at cost | 27 | — | 27 |
| As at 31 December 2015 | **723** | **567** | **1,290** |
| As at 1 January 2016 | 723 | 567 | 1,290 |
| Additions at cost | — | — | — |
| As at 31 December 2016 | **723** | **567** | **1,290** |
| Depreciation | | | |
| As at 1 January 2015 | 210 | 324 | 534 |
| Charge for the year | 50 | 81 | 131 |
| As at 31 December 2015 | **260** | **405** | **665** |
| As at 1 January 2016 | 260 | 405 | 665 |
| Charge for the year | 46 | 81 | 127 |
| As at 31 December 2016 | **306** | **486** | **792** |
| Net Book Value | | | |
| As at 31 December 2016 | **417** | **81** | **498** |
| As at 31 December 2015 | 463 | 162 | 625 |

## 13. INTANGIBLE ASSETS

| Group | Goodwill £000 | Client Portfolio £000 | Product Development £000 | Total £000 |
|---|---|---|---|---|
| Costs | | | | |
| Balance as at 1 January 2015 | 16,727 | — | 215 | 16,942 |
| Additions | — | — | 68 | 68 |
| **Balance at 31 December 2015** | **16,727** | **—** | **283** | **17,010** |
| Balance as at 1 January 2016 | 16,727 | — | 283 | 17,010 |
| Acquired through business combination | 535 | 1,000 | 106 | 1,641 |
| Additions | — | — | 113 | 113 |
| **Balance at 31 December 2016** | **17,262** | **1,000** | **502** | **18,764** |
| Amortisation and impairment | | | | |
| Balance as at 1 January 2015 | — | — | 132 | 132 |
| Charge for the year | — | — | 46 | 46 |
| **Balance at 31 December 2015** | **—** | — | **178** | **178** |
| Balance as at 1 January 2016 | — | — | 178 | 178 |
| Charge for the year | — | 17 | 25 | 42 |
| **Balance at 31 December 2016** | — | **17** | **203** | **220** |
| Carrying amounts | | | | |
| **At 31 December 2016** | **17,262** | **983** | **299** | **18,544** |
| At 31 December 2015 | 16,727 | — | 105 | 16,832 |

### Impairment testing for cash-generating units containing goodwill

All goodwill relates to the acquisitions made during the period from 28 March 2007 to 31 December 2016, and reflects the difference between the identifiable net asset value of those acquisitions and the total consideration incurred for those acquisitions.

Goodwill arising on acquisition is allocated to the cash generating units comprising the acquired businesses. Given the level of integration and synergies these units comprise the jurisdictions in which businesses have been acquired as follows:

| | Gibraltar £000 | Spain £000 | Jersey £000 | Total £000 |
|---|---|---|---|---|
| at 1 January 2015 and 1 January 2016 | 15,280 | 470 | 977 | 16,727 |
| Arising on acquisition | 535 | — | — | 535 |
| **At 31 December 2016** | **15,815** | **470** | **977** | **17,262** |

The Group tests goodwill annually for impairment with the recoverable amount being determined from value in use calculations which are based on Board approved projections. A pre-tax discount rate of 8% has been used in discounting the projected cash flows. The assumptions applied for turnover growth range between 0% and 5% for the various CGUs and have been arrived at using past experience and knowledge of the various markets and internal strategies for each CGU. Similarly for expenses a growth rate of 3% has been applied.

The valuations indicate sufficient headroom such that a reasonable potential change to key assumptions is unlikely to result in an impairment of the related goodwill.

Based on the operating performance of the respective CGUs, no impairment loss was deemed necessary in the current financial year.

## 13. INTANGIBLE ASSETS *(continued)*

| Company | Product Development £000 |
|---|---|
| **Costs** | |
| As at 1 January 2015 | 88 |
| Additions | 79 |
| As at 31 December 2015 | **167** |
| | |
| As at 1 January 2016 | 167 |
| Additions | 121 |
| As at 31 December 2016 | **288** |
| | |
| **Amortisation and impairment** | |
| As at 1 January 2015 | 44 |
| Charges for the year | 25 |
| As at 31 December 2015 | **69** |
| | |
| As at 1 January 2016 | 69 |
| Charges for the year | 14 |
| As at 31 December 2016 | **83** |
| | |
| **Carrying amounts** | |
| As at 31 December 2016 | **205** |
| As at 31 December 2015 | 98 |

## 14. Investments

### GROUP – OTHER INVESTMENTS

Investments relate to £792,000 (2015: £708,000) of UK Government Gilts and £4,239,000 in a discretionary portfolio managed by SG Hambros. This is low risk conservative investing predominately in sterling high grade corporate bonds with limited duration risk. The UK Government Gilts pay coupons of 4.75% and 4.25% per annum and mature on 7 December 2030 and 7 September 2039.

These investments have been classified as Level 2 as their value has been based on significant other observable inputs available.

### COMPANY – INVESTMENTS IN SUBSIDIARIES

| Acquisitions of the Company | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Shares in Group undertakings | | |
| Balance at start of year | 16,052 | 16,052 |
| Investment in new subsidiaries | 5 | — |
| Acquisitions | 5,385 | — |
| Balance at end of year | **21,442** | 16,052 |

## 15. TRADE AND OTHER RECEIVABLES

| Group | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Trade receivables | 3,397 | 3,102 |
| Other receivables | 1,796 | 1,091 |
| Total | **5,193** | 4,193 |

| Company | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Receivables due from related parties | 6,588 | 7,970 |
| Other receivables | 346 | 244 |
| Total | **6,934** | 8,214 |

Amounts due from related parties are unsecured, interest free and repayable on demand.

The Group's exposure to credit risks and impairment losses related to trade and other receivables (excluding accrued income) are described in note 23.

## 16. CASH AND CASH EQUIVALENTS

| Group | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Bank balances | 11,869 | 8,036 |
| Cash and cash equivalents in the statement of cash flows | 11,869 | 8,036 |

| Company | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Bank balances | 204 | 452 |
| Cash and cash equivalents in the statement of cash flows | 204 | 452 |

## 17. CAPITAL AND RESERVES

| Authorised, called up, issued and fully paid | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| 59,408,087 ordinary shares of £0.001 each<br>(2015: 59,408,087 ordinary shares of £0.001 each) | 59 | 59 |

### Treasury shares
The treasury shares relate to those shares purchased by the STM Group EBT for allocation to executives. The trustees held 641,902 (2015: 530,513) shares at 31 December 2016, amounting to £250,818 (2015: £205,776).

### Share premium
There were no new shares issued during the year. During 2015 a total of 5,961,538 shares were issued for a total share premium of £1,544,039.

### Translation
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

## 17. CAPITAL AND RESERVES *(continued)*

### Dividends

The following dividends were declared and paid by the Group during the year:

| | **31 December 2016 £000** | 31 December 2015 £000 |
|---|---|---|
| 1.4 pence per qualifying ordinary share (2015: nil) | 832 | — |

After the respective reporting dates the following dividends were proposed by the Directors. The dividends have not been provided for and there are no income tax consequences.

| | **31 December 2016 £000** | 31 December 2015 £000 |
|---|---|---|
| 1.0 pence per qualifying ordinary share (2015: 0.9 pence) | 594 | 535 |

## 18. SHARE BASED PAYMENTS

On 18 May 2016, the Company adopted the Value Creation Plan (VCP) which provides long term incentives for the Executive Directors and senior management as appropriate.

The VCP pays out based on 8.35% of the total value created for shareholders over the Performance Period in excess of the threshold share price of 60p. This excess is measured as the difference between the 30 day average closing share price of the Company following the announcement of the 2018 financial results plus the value of any dividends paid during the Performance Period and the threshold price. The Performance Period started on 10 March 2015 and ends one month after the Company announces its 2018 financial results.

Under IFRS 2, the fair value of any award needs to be determined at grant date and spread proportionally across the vesting period. The vesting date is the period from the date of grant (18 May 2016, when the VCP was approved by the shareholders at the Annual General Meeting) and the end of the Performance Period. Given the VCP has a market based performance condition attached, namely the share price threshold, the accounting charge reflects the expected achievement against targets. A Monte Carlo valuation was carried out to calculate this fair value using a share price volatility of 19%, risk free rate of interest of 1% and the share price at the grant date of 46p.

The charge for the year which has been recognised within the share based payment reserve is £34,000.

## 19. EARNINGS PER SHARE

Earnings per share for the year from 1 January 2016 to 31 December 2016 is based on the profit after taxation of £2,373,000 (2015: £2,296,000) divided by the weighted average number of £0.001 ordinary shares during the year of 59,408,087 basic (2015:- 57,562,460) and 61,250,387 dilutive (2015:- 60,598,814) in issue.

A reconciliation of the basic and diluted number of shares used in the year ended 31 December 2016 is:

| | **31 December 2016 £000** | 31 December 2015 £000 |
|---|---|---|
| Weighted average number of shares | 59,408,087 | 57,562,460 |
| Share incentive plan (Note 18) / convertible loan note (Note 20) | 1,842,300 | 3,036,354 |
| Diluted | **61,250,387** | 60,598,814 |

## 20. TRADE AND OTHER PAYABLES

| Group | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Loans from related parties | — | 26 |
| Deferred income | 3,730 | 2,618 |
| Trade payables | 436 | 263 |
| Convertible Loan Notes | — | 300 |
| Contingent Consideration | 1,150 | — |
| Insurance technical reserve | 2,805 | — |
| Other creditors and accruals | 2,587 | 1,892 |
| | **10,708** | 5,099 |

| Company | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Owed to related parties | 5,323 | 5,570 |
| Convertible Loan Notes | — | 300 |
| Contingent Consideration | 1,150 | — |
| Other creditors and accruals | 223 | 237 |
| | **6,696** | 6,107 |

Deferred income consists of fixed fee revenues billed in advance to clients which have not yet been earned as at the year end. These amounted to £3,730,000 as at 31 December 2016 (31 December 2015: £2,618,000).

The Group's exposure to liquidity risk related to trade and other payables is described in note 23.

As at 31 December 2015 the Company had £0.3 million convertible loan notes ("Loan Notes"). The Loan Notes had a fixed term of 2 years from March 2014 and consequently were repaid in March 2016. The Loan Notes carried an annual coupon of 7% per annum.

## 21. OTHER PAYABLES - AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

| Group | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Bank Loan | 3,300 | — |
| | **3,300** | — |

| Company | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Bank Loan | 3,300 | — |
| | **3,300** | — |

During the year the Company took out a 3 year bank loan for £3.30 million pounds which pays interest of 4% above LIBOR. The bank loan is interest only for the first year with quarterly repayments thereafter and is secured by a capital guarantee provided by STM Fidecs Limited.

## 22. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk
- Currency risk
- Regulatory risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has an audit and risk committee which is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market condition and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from clients.

#### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each client. The demographics of the Group's client base, including the default risk of the country in which the clients operate, has less of an influence on credit risk. There is no one client to which a significant percentage of the Group's revenue can be attributed.

The Group establishes a provision for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

### b. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

### c. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The object of market risk management is to manage and control market risk expenses within acceptable parameters, while optimising the return. The Group does not have a significant exposure to market risk.

### d. Interest rate risk

The Company only has one bank borrowing at the year end, however the exposure to interest rate movements is minimal.

### e. Currency risk

The Group has a small exposure to currency risk in relation to the investment in STM Nummos. This is mitigated by the fact that the assets and liabilities held by STM Nummos are in its functional currency of Euros (€). It has a further currency risk in relation to the expenses incurred in Malta as these are in Euros (€). This is mitigated by the fact that clients are invoiced in its and the Group's functional currency of Pounds Sterling (£).

## 22. FINANCIAL RISK MANAGEMENT *(continued)*

The Company has minimised exposure to foreign exchange rates, with the majority of transactions being carried out in its functional currency of Pounds Sterling (£).

f. Regulatory risk

The Group is subject to laws, regulations and specific solvency requirements in the various jurisdictions in which it operates. The Group has established policies and procedures aimed at compliance with local laws and regulations.

g. Capital management

The Board's policy is to maintain a strong capital base, which is defined as share capital and retained earnings, so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Furthermore, some of the Company's subsidiaries are licensed by the respective jurisdictions regulators and as such all comply with the regulatory capital requirements set by each respective regulatory body.

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern, while maximising the return to stakeholders through optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes a bank loan as per Note 21, and equity attributable to shareholders, comprising reserves and retained earnings as disclosed. The Board reviews the capital structure and, as part of this review, considers the cost of capital and the risks associated with each class of capital. In addition the Board of Directors considers the liquidity and solvency of the Group on an ongoing basis.

The Group monitors capital using a ratio of "adjusted net debt" to "adjusted equity". For this purpose, adjusted net debt is defined as total liabilities, comprising interest-bearing loans and borrowings less cash and cash equivalents. Adjusted equity comprises all components of equity.

The Group's adjusted net debt to equity ratio at 31 December 2016 was 0.12. Net debt compared to equity at 31 December 2016 was as follows:

| | **31 December 2016 £000** | 31 December 2015 £000 |
|---|---|---|
| Total Liabilities | 15,078 | 6,370 |
| Less: cash and cash equivalents | 11,869 | 8,036 |
| Adjusted new debt | 3,209 | (1,666) |
| Total equity and adjusted equity | **27,662** | 26,045 |
| Adjusted net debt to adjusted equity ratio | **0.12** | (0.06) |

## 23. FINANCIAL INSTRUMENTS

Credit Risk

*Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

| | **Carrying amount** | |
|---|---|---|
| | **31 December 2016 £000** | 31 December 2015 £000 |
| Investments | 5,031 | 708 |
| Trade and other receivables | 5,193 | 4,193 |
| Cash and cash equivalents | 11,869 | 8,036 |
| | **22,093** | 12,937 |

The Group's maximum exposure to credit risk on trade and other receivables relating to one entity or group of related entities amounts to less than 10% of the overall trade receivable amount as at 31 December 2016 and 31 December 2015.

## 23. FINANCIAL INSTRUMENTS *(continued)*

*Impairment losses on trade receivables*

Impairment on trade receivables is determined by assessing the conditions of the debtors to determine whether there is objective evidence of impairment. Objective evidence that trade receivables are impaired include:

- Default or delinquency by a debtor;
- Indications that a debtor will enter bankruptcy;
- Adverse changes in the payment status of the debtor;
- Observable data indicating that there is a measurable decrease in the expected cash flows from a debtor.

The ageing of the Group's trade receivables at the reporting date was:

| | Gross receivables 31 December 2016 £000 | Individual Impairment 31 December 2016 £000 | Total £000 | Gross receivables 31 December 2015 £000 | Individual Impairment 31 December 2015 £000 | Total £000 |
|---|---|---|---|---|---|---|
| Not past due | 970 | — | 970 | 543 | — | 543 |
| Past due 0–30 days | 434 | — | 434 | 759 | — | 759 |
| Past due 31–120 days | 489 | — | 489 | 357 | — | 357 |
| More than 120 days past due | 2,243 | (739) | 1,504 | 2,142 | (699) | 1,443 |
| | **4,136** | **(739)** | **3,397** | 3,801 | (699) | 3,102 |

Standard credit terms are 30 days from the date of issuing the fee note.

The movement in the allowance for impairment in respect of trade receivables during the period was:

| | 31 December 2016 £000 | 31 December 2015 £000 |
|---|---|---|
| Balance at start of year | 699 | 1,208 |
| Impairment loss increased / (released) | 40 | (509) |
| Balance at end of year | **739** | 699 |

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of some of the trade receivables older than a year and those that are not more than one year old. This is because, invariably, the Group are administering clients' assets and therefore have further recourses for the recoverability of any debts outstanding.

*Liquidity Risk*

The Group holds sufficient liquid assets, including cash at bank, to enable it to meet its liabilities as they fall due. The following are the Group's contractual maturity liabilities. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting arrangements.

| 31 December 2016 | Carrying amounts £000 | Contractual cash flow £000 | 6 months or less £000 | 6-12 months £000 | 1-3 years £000 |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Trade payables | 436 | 436 | 436 | — | — |
| Loans from related parties | — | — | — | — | — |
| Bank Loan | 3,300 | 3,300 | — | — | 3,300 |
| Other creditors and accruals | 2,587 | 2,587 | 2,587 | — | — |
| Contingent Consideration | 1,150 | 1,150 | — | 1,150 | — |
| Corporation tax payable | 1,070 | 1,070 | 1,070 | — | — |
| | **8,543** | **8,543** | **4,093** | **1,150** | **3,300** |

## 23. FINANCIAL INSTRUMENTS *(continued)*

*Liquidity Risk (continued)*

| 31 December 2015 | Carrying amounts £000 | Contractual cash flow £000 | 6 months or less £000 | 6-12 months £000 | 1-3 years £000 |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Trade payables | 263 | 263 | 263 | — | — |
| Loans from related parties | 26 | 26 | 26 | — | — |
| Convertible Loan Notes | 300 | 300 | 300 | — | — |
| Other creditors and accruals | 1,892 | 1,892 | 1,892 | — | — |
| Corporation tax payable | 1,271 | 1,271 | 1,271 | — | — |
| | **3,752** | **3,752** | **3,752** | **—** | **—** |

### Currency, interest rate risk and market risk

The Group has minimal exposure to currency risk and market risk. The net impact to the results on interest bearing assets and liabilities is also considered to be minimal.

## 24. LEASES

### Operating Leases

Non-cancellable operating leases are payable as follows:

| | **31 December 2016 £000** | 31 December 2015 £000 |
|---|---|---|
| Less than one year | 704 | 518 |
| Between one year and five years | 2,573 | 1,553 |
| More than five years | 980 | 1,059 |
| | **4,257** | 3,130 |

The Group leases a number of offices from which they operate, the largest of which is for Montagu Pavilion which runs for a further 7 years.

### Finance Leases

Non-cancellable finance leases are payable as follows:

| | **31 December 2016 £000** | 31 December 2015 £000 |
|---|---|---|
| Less than one year | 10 | — |
| Between one year and five years | 22 | — |
| More than five years | — | — |
| | **32** | **—** |

## 25. RELATED PARTIES

### Transactions with key management personnel and Directors' Compensation

Key management compensation comprised:

| | **31 December 2016 £000** | 31 December 2015 £000 |
|---|---|---|
| Short term employee benefits | 505 | 697 |
| Post-employment benefits | — | — |
| Share-based payments | 22 | — |
| | **527** | 697 |

### Key management personnel and Director Transactions

Trusts and related parties connected to the Directors held 13% of the voting shares of the Company as at 31 December 2016 (2015: 16%).

The Group provided administration services to Gold Management Limited, a company partly owned by Louise Kentish, spouse of Alan Kentish, a Director of the Company. These services amounted to £7,365 for the period to 31 December 2016 (2015: £3,160), of which £nil was outstanding at 31 December 2016 (2015: £nil).

Greystone Trust Company Limited, of which Michael Riddell is a Director, charged the Company £62,526 for services rendered during 2016 (2015: £72,114), of which £nil was outstanding at 31 December 2016 (2015: £210).

AmorethanD Limited, of which Jonathan Shearman is a Director charged the Company £18,000 for services rendered during the period in which Jonathan Shearman was a Director (2015: £18,000), of which £nil was outstanding at the year end (2015: £3,644)

All services relating to the above transactions were carried out by the Group on an arm's length basis and are payable/receivable under the standard credit terms.

As at 31 December 2016 the Group owed Fiander Properties Limited, a company related to the Group by virtue of common ownership £100,602 (2015: £100,602).

During the year the Company charged STM Fidecs Life, Health and Pensions Limited a head office charge of £nil (2015: £117,591). The company also received dividends of £2,054,009 (2015: £1,985,222) from STM Malta Limited and £875,000 (2015: £nil) from STM Fidecs Limited.

## 26. GROUP ENTITIES

### Principal subsidiaries

As at 31 December 2016 the Company owned the following subsidiaries which are regarded as the principal trading operations of the Group.

| Group | Country of incorporation | Ownership interest 31 December 2016 | Ownership interest 31 December 2015 | Activity |
|---|---|---|---|---|
| STM Fidecs Limited | Isle of Man | 100% directly | 100% directly | Holding company |
| STM Fidecs Management Limited | Gibraltar | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM Fidecs Insurance Management Limited | Gibraltar | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM Fiscalis Limited | Gibraltar | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM Fidecs Life, Health and Pensions Limited | Gibraltar | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM Fidecs Trust Company Limited | Gibraltar | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM Fidecs Central Services Limited | Gibraltar | 100% indirectly | 100% indirectly | Services and Administration |
| STM Fidecs Pension Trustees Limited | Gibraltar | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM Fiduciaire Trustees Limited | Jersey | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM Fiduciaire Limited | Jersey | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM Nummos SL | Spain | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM (Caribbean) Limited | BVI | 100% directly | 100% directly | Intellectual property holding company |
| STM Life Assurance PCC Plc | Gibraltar | 100% indirectly | 100% indirectly | Insurance company |
| Zenith Trust Company Limited | Jersey | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM Nummos Limited | England | 100% directly | 100% directly | Holding company |
| STM Nummos Life SL | Spain | 100% indirectly | 100% indirectly | Administration of clients' assets |
| STM Malta Limited | Malta | 100% directly | 100% directly | Holding company |
| STM Malta Trust and Company Management Limited | Malta | 100% indirectly | 100% indirectly | Administration of clients' assets |
| London & Colonial Holdings Limited | England | 100% directly | — | Holding company |
| London & Colonial Assurance Plc | Gibraltar | 100% indirectly | — | Administration of clients' assets |
| London & Colonial Services Limited | England | 100% indirectly | — | Administration of clients' assets |
| London & Colonial Central Services Limited | England | 100% indirectly | — | Administration of clients' assets |
| London & Colonial (Trustee Services) Limited | Gibraltar | 100% indirectly | — | Administration of clients' assets |

## IMPORTANT NOTE

**THIS NOTICE AND THE ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if you are resident outside the United Kingdom, from another appropriately qualified financial adviser.

If you have sold or transferred all of your shares, please forward this Notice together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

**STM Group Plc (the "Company")**
**Notice of Annual General Meeting**

Notice is hereby given that the Annual General Meeting of the Company will be held on 24 May 2017 at 11am at 18 Athol Street, Douglas, Isle of Man IM1 1JA for the purpose of considering and, if thought fit, passing the following resolutions:

**Ordinary Resolutions**

1. THAT the accounts for the year ended 31 December 2016 and the reports of the Directors and auditors thereon be received.
2. THAT the final dividend of 1p per share recommended by the Directors be declared to be payable on 28 June 2017 to shareholders registered at the close of business on 2 June 2017, the ex-dividend date of the shares is 1 June 2017.
3. THAT the appointment as Director of the Company of Malcolm Berryman, who has been appointed as Director during the period since the last AGM, be confirmed in accordance with article 83 of the Company's Articles of Association (the "Articles").
4. THAT the appointment as Director of the Company of Robin Ellison, who has been appointed as Director during the period since the last AGM, be confirmed in accordance with article 83 of the Articles.
5. THAT Alan Roy Kentish who has retired from office by rotation in accordance with article 88 of the Articles, be reappointed as a Director of the Company.
6. THAT Therese Gemma Neish who has retired from office by rotation in accordance with article 88 of the Articles, be reappointed as a Director of the Company.
7. THAT KPMG Audit LLC be reappointed as auditors of the Company to hold office from the conclusion of the Annual General Meeting until the conclusion of the Annual General Meeting held in 2018

**Special Resolution**

8. THAT the Directors be authorised to allot Ordinary Shares for cash as if the restrictions at Article 7.1 (Pre-emption) of the Articles do not apply to such allotment, provided such allotment or allotments are limited to the allotment of Ordinary Shares up to an aggregate nominal amount equal to 10 per cent of the aggregate nominal amount of all the Ordinary Shares in issue as of the date of passing this resolution, which would amount to a maximum of 5,940,808 Ordinary Shares, such authority to expire at the conclusion of the next Annual General Meeting of the Company after passing of this resolution (the "First Period") save that the Company may before the expiry of the First Period make an offer or agreement which would or might require Ordinary Shares to be allotted after such expiry of the First Period (as the case may be) and the Directors of the Company may allot Ordinary Shares in pursuance of such offer or agreement as if their authority conferred hereby had not expired

By order of the Board

Elizabeth A. Plummer

**Elizabeth A Plummer**
Company Secretary
18 Athol Street, Douglas
Isle of Man, IM1 1JA
14 March 2017

**Notes:**

Resolutions 1 to 7 are to be proposed as Ordinary Resolutions. Resolution 8 is to be proposed as a Special Resolution requiring the approval of (i) on a show of hands a majority of not less than 75 per cent of such members as are present and voting at the relevant meeting and are entitled under the Articles to vote on a show of hands; or (ii) on a poll members of the Company holding not less than 75 per cent of the voting rights attributable to the shares held by the members present and voting at the relevant meeting and entitled under these Articles to vote on a poll.

**A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of that member. A proxy need not be a member of the Company. A form of proxy is enclosed. Proxy forms must be returned by post or by hand to the office of the agent of the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Rd, Bristol BS99 6ZY not less than 48 hours before the time of holding of the meeting. The Company specifies, pursuant to Regulation 22 of the Uncertificated Securities Regulations 2006 (SD No. 743/06), that only those members entered on the register of members as at 11:00 am on 22 May 2017 (or in the event that the meeting is adjourned, on the register of members 48 hours before the time of any adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares registered in their name at the time. Changes to the register of members after 11:00am on 22 May 2017 (or, in the event that the meeting is adjourned, on the register of members less than 48 hours before the time of any adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting.**

## CORPORATE

### Directors

Michael Ross Riddell CA
*Non-Executive Chairman*

Alan Roy Kentish ACA ACII AIRM
*Chief Executive Officer*

Therese Gemma Neish BA (Hons) FCCA
*Chief Financial Officer*

Malcolm Berryman
*Non-Executive Director*

Robin Ellison
*Non-Executive Director*

### Company Details

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Company Number
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Company Secretary
Elizabeth Anne Plummer
FCA TEP CTA

Registrars and CREST Service Provider
Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street St Helier
Jersey JE1 1ES

### Advisers

Registered Agent
Greystone Trust Company Limited
18 Athol Street Douglas
Isle of Man IM1 1JA

Nominated Adviser and Broker
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60 New Broad Street
London EC2M 1JJ

Solicitors to the Company as to English law
Memery Crystal LLP
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London WC2A 1AP

Solicitors to the Company as to Isle of Man law
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### Auditors

KPMG Audit LLC
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STM GROUP PLC


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