ANNUAL REPORT & ACCOUNTS 2017

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. The Group continues to expand through the development of additional products and services to meet the demands of its expatriate client base.

REVENUE OF £21.5 MILLION
(2016: £17.4 million)

Earnings before interest, taxation, depreciation and amortisation (EBITDA) £4.8 million
(2016: £3.1 million)

Strong balance sheet with cash and cash equivalents of £18.4 million at year end
(2016: £11.9 million)

FINANCIAL HIGHLIGHTS:

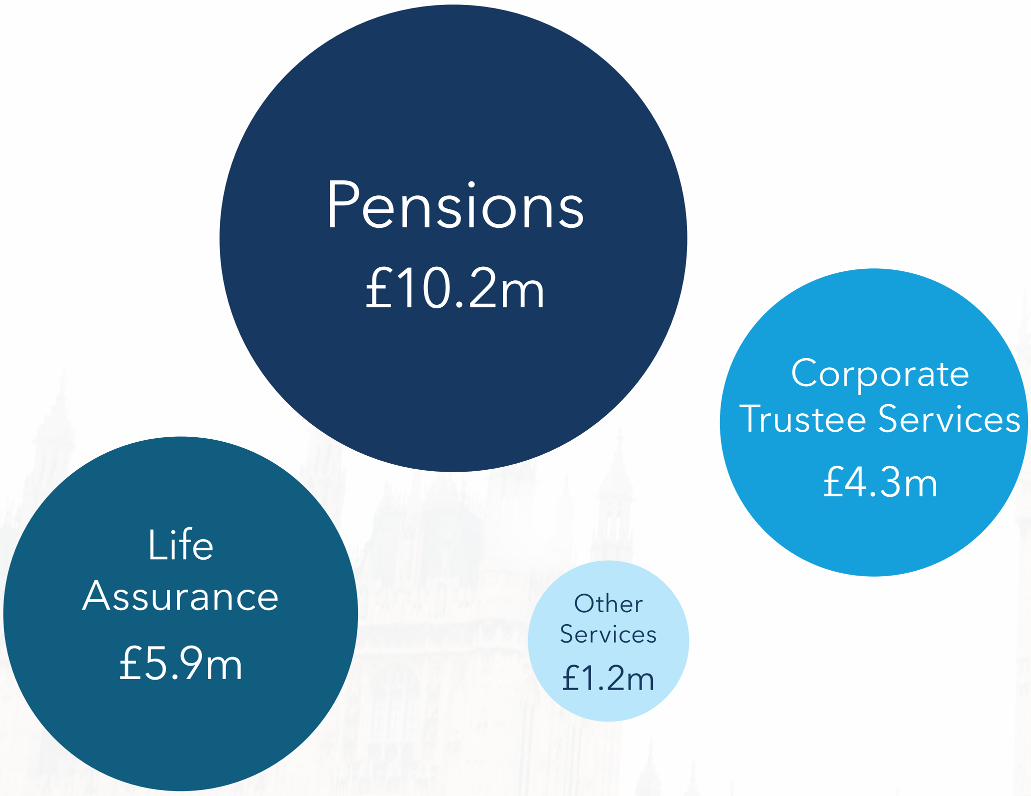
- Revenue for the period up circa 24% at £21.5 million (2016: £17.4 million)
- EBITDA for the period of £4.8 million (2016: £3.1 million)
- Profit before tax for the period of £4.0 million (2016: £2.8 million)
- Earnings per share of 6.69 pence (2016: 3.99p pence)
- Strong balance sheet with cash and cash equivalents balance up 55% at £18.4 million (31 December 2016: £11.9 million)
- Final dividend of 1.2 pence per ordinary share recommended (2016: 1.0 pence)

OPERATIONAL HIGHLIGHTS:

- UK administered International SIPP product launched to compensate for part of the lost ROPS market
- Refocus on expansion in UK regulated products but still for expatriate market
- Acquisition of London & Colonial fully integrated and delivering anticipated returns
- Strengthening of the Group's corporate governance with the new role of Head of Enterprise Risk Management
- Bolt on acquisition in Malta
- Life assurance business now a significant Group revenue and profit contributor following acquisition and organic growth

A YEAR IN REVIEW

REVENUE BY OPERATING SEGMENT 2017



GEOGRAPHICAL OPERATING SEGMENTS

UK

Malta

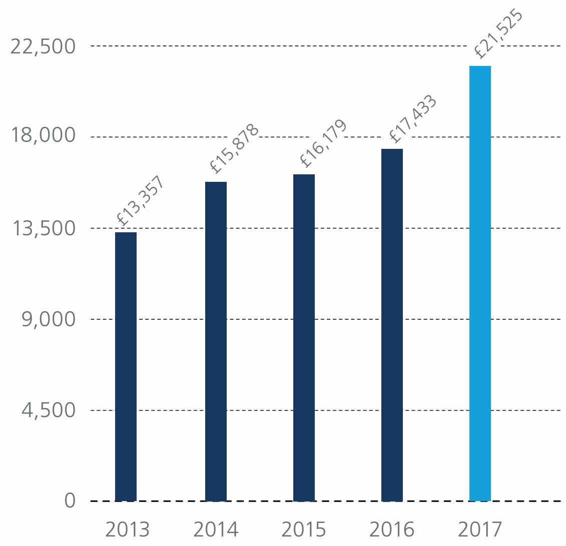
Gibraltar

Jersey

Spain

A YEAR IN REVIEW

REVENUE (£'000s)



Significant Increase:

As a result of both organic growth and via acquisition.

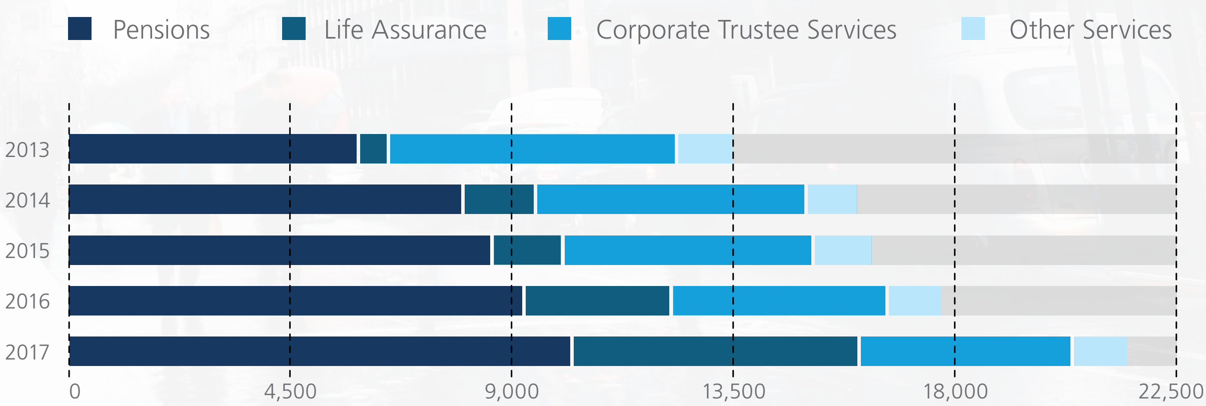
Strong Visibility:

The amount of recurring revenue continues to increase and still accounts for 75% of 2017 total revenue.

23.47%

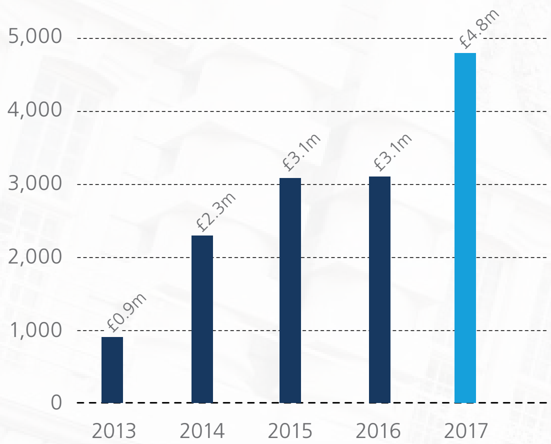
as compared to 2016

REVENUE BY OPERATING SEGMENT



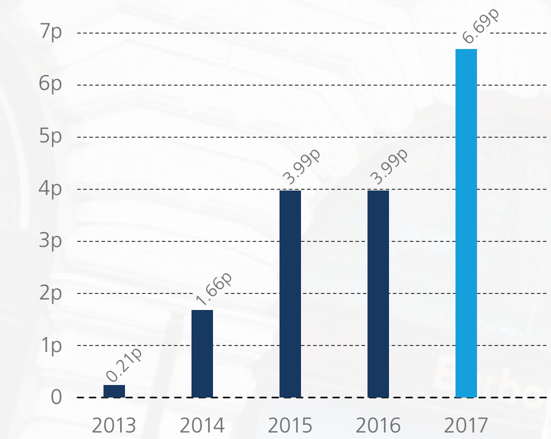
A YEAR IN REVIEW

EBITDA (£'000s)



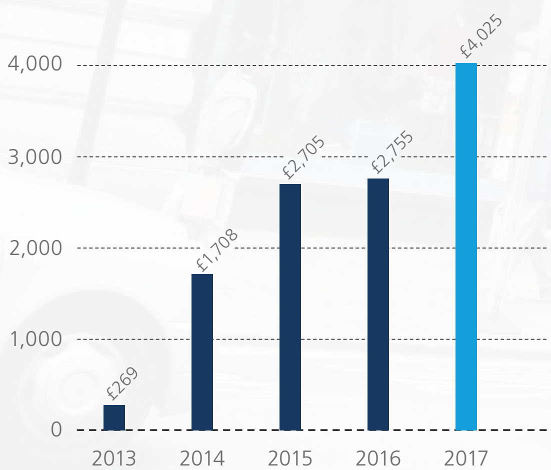
54.84%
as compared to 2016

EARNINGS PER SHARE (EPS)



67.67%
as compared to 2016

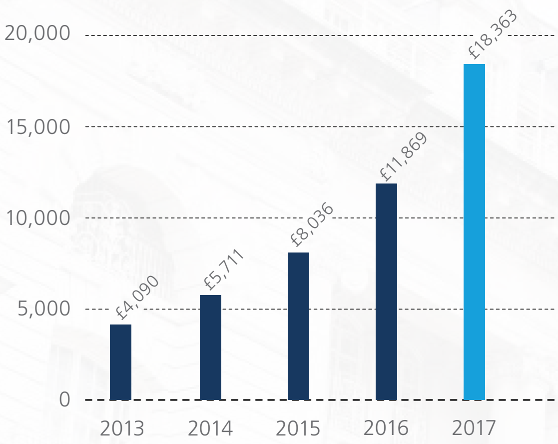
PROFIT BEFORE TAX (£'000s)



46.10%
as compared to 2016

A YEAR IN REVIEW

CASH AND CASH EQUIVALENTS (£'000s)



Strong balance sheet:

Cash and cash equivalents balance at £18.4 million.

54.71%

as compared to 2016

AVERAGE NUMBER OF EMPLOYEES (GROUP)

Average number of employees (including Executive Directors)

2013	2017
146	**201**

“I FEEL THAT THE BUSINESS BECOMING MORE UK ORIENTATED WILL FURTHER BUILD INVESTOR CONFIDENCE, IMPROVE EFFICIENCY, AND OPEN FURTHER UK BUSINESS OPPORTUNITIES FOR THE GROUP.”

CHAIRMAN'S STATEMENT

MICHAEL RIDDELL
Chairman

IT GIVES ME GREAT PLEASURE TO PRESENT THE FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017, WHICH REPRESENT A STRONG SET OF FULL YEAR RESULTS AND A RECORD YEAR OF PROFITABILITY FOR THE GROUP.

The acquisition of London & Colonial in late 2016 has borne fruit during 2017 and has allowed us to quickly adapt to market changes so as to protect our new business stream. We have delivered a significant amount of cost savings by merging administrative processes across the Group whilst ensuring that the existing recurring revenue book continues to perform in a predictable and solid manner. We were also pleased to make the acquisition of Harbour Pensions Limited which subsequently completed post year end after receiving regulatory approval from the Malta Financial Services Authority.

As previously disclosed we have experienced regulatory issues in some of the jurisdictions in which we operate over the last few years. The Board's objective is to address and minimise any risk in this area. Importantly, in early 2017 the appointment of a Head of Enterprise Risk Management (ERM) for the Group was made as part of further improving our corporate governance framework. Already in 2018 we have made important changes to our corporate governance arrangements, including proposed further appointments of NEDs to the subsidiary Boards, and the Group will be continuing to make more improvements over the rest of 2018.

One of the Group Board's primary responsibilities is to ensure the provision of effective corporate governance. To this end, the Board is undertaking a full review of every aspect of governance well in advance of the AIM requirement to comply or explain against a recognised Corporate Governance Code by September 2018.

I am particularly pleased that my long term views regarding the potential benefits of re-locating the Group head office from Gibraltar to the UK is now well underway. I feel that the business becoming more UK orientated will further build investor confidence, improve efficiency, and open further UK business opportunities for the Group.

The Board has a medium term vision and a strategy to continue to deliver enhanced profitability, whilst at the same time de-risking the business further by continuing to expand the Group's product range and its intermediary base whilst keeping costs firmly under control.

Finally, I have chaired the Board for the past three years, having also served as a Non-Executive for the four years preceding that, and have enjoyed my time working with the team to make STM a success. However, after seven years of service I have made the decision to retire and enjoy more time with my family, and I therefore will not be standing for re-election at the forthcoming AGM in May 2018, with my retirement becoming effective on 23 May 2018. This in turn leaves the Board perfectly placed for the appointment of one or more UK based Non-Executive Directors to reflect the new London head office status, with the Board having already begun the recruitment process.

I would like to take this opportunity to personally thank all of the Group's Directors, executive and staff for their efforts in making 2017 such a success, and will avidly follow STM's continued success in the future.

Michael Riddell

Michael Riddell
Chairman
26 March 2018

“IT IS A PROUD FEELING TO BE ABLE TO STATE THAT WE HAVE DELIVERED RECORD PROFITS DURING 2017, SIGNIFICANTLY UP ON 2016.”

CHIEF EXECUTIVE OFFICER'S STATEMENT

ALAN KENTISH
Chief Executive Officer

I AM PLEASED TO PRESENT THE ANNUAL RESULTS FOR STM GROUP PLC FOR THE YEAR ENDED 31 DECEMBER 2017.

The second year of my tenure has certainly been more eventful than I would have wished. Despite some unexpected and significant challenges, it is a proud feeling to be able to state that we have delivered record profits during 2017, significantly up on 2016.

STM's acquisition of London & Colonial Holdings Limited (LCH) in late 2016 has played a key part in helping us to adapt and widen our product offerings to the expatriate market; which was a necessity following the UK Spring Budget that announced an Overseas Tax Charge of 25% on certain overseas pension transfers. As stated at the time, this was expected to affect circa 80% of our new business volumes for our international pension products.

This estimate proved correct but due to management's innovation and flexibility, we were able to come to the market in short order with an alternative, UK regulated, product to service our international distribution network. This has seen most of this lost new QROPS business, by both policy number and revenue, replaced by our International SIPP offering.

With a significant amount of new business falling under our UK regulated entity, this in turn has given us a more UK centric focus, and has contributed to the decision to move our Group head office from Gibraltar to the UK from January 2018.

As part of this move, it allows the Group Executive function to recruit from a larger population and will also see some additional appointments to our PLC Board which will further strengthen our depth of knowledge and capabilities.

Certain STM Gibraltar regulated entities have been working in a collaborative way with the GFSC on a third-party review (a Skilled Person Review) being carried out under Section 7 of the Financial Services (Information Gathering and Co-operation) Act 2013, on certain aspects of the various businesses (the 'Report'). It is expected that the Report will be finalised by 30 April 2018 and will include recommendations, if appropriate. The Group has no appetite for risk in respect of its relationships and dealings with the regulators and we are determined that we will move the Group forward in line with that level of risk appetite.

Overall, it is very clear that our underlying business continues to perform according to plan, demonstrating the quality and predictability of our recurring revenue streams which are key component parts of any robust business model.

During the last quarter of 2017, we signed the Sale and Purchase Agreement for the acquisition of Harbour Pensions Limited. Regulatory approval came through in February 2018 allowing completion to occur. We are now in the process of integrating this business with that of our existing Malta business, which once complete, we expect to result in a further increase of some £0.4 million profit before tax per annum to the Malta operation.

On behalf of the Board and the Company, a special thank you goes out to Mike Riddell, STM's Chairman for the past three years and Board Member for seven years, who is not putting himself forward for re-election having decided that it is time for him to leave his working life behind and enjoy more time with his family. His stewardship in guiding us through the re-invention phase of our recent history has been invaluable, and has protected and enhanced shareholder value for all concerned.

CHIEF EXECUTIVE OFFICER'S STATEMENT

OPERATIONAL OVERVIEW

PENSIONS

Our pensions businesses have all seen significant changes to their *modus operandi* following the UK Spring Budget.

Total revenue across our pensions businesses amounted to £10.2 million (2016: £9.2 million) and accounted for 47% of total Group revenue (2016: 52%).

As predicted since the UK Spring Budget, our Gibraltar operation has seen almost no new business with regards to ROPS, whilst Malta is now only receiving new business from the EEA. Conversely, our UK SIPP business has become the focus of new business growth.

To put this in context, for the nine months following the Budget, new business numbers were 217 ROPS (2016: 1,224) administered by our Malta and Gibraltar offices and 755 SIPPs (2016: 162) administered from our UK operations.

Malta remains the largest of our three jurisdictions with pension turnover of £6.1 million (2016: £6.5 million), with Gibraltar generating £2.6 million (2016: £2.4 million) of turnover, and finally, in its first full year under STM's ownership, the UK generated £1.5 million of revenue (2016: £0.3 million).

An important KPI remains the annual recurring revenue statistic which has been determined as the contractual element of any trustee fee due or any fees under the life assurance policies, which are billed on an annual basis. For 2017 this amounted to £9.6 million (2016: £8.5 million) which represents 95% (2016: 93%) of total pension revenue, giving a highly visible and predictable future revenue stream.

LIFE ASSURANCE

The acquisition of London & Colonial in late 2016, and with it the Gibraltar based life assurance company (LCA), has allowed STM to significantly grow its life assurance business.

This is seen from the 2017 combined revenue figure of £5.9 million as compared to £2.8 million for 2016.

Pleasingly, organic growth for STM Life during the year has delivered a 26% uplift, to generate turnover for 2017 of £2.4 million (2016: £1.9 million). Within this revenue figure, recurring revenue, annual fees and investment income amounted to £1.8 million compared to £1.4 million in 2016. This provides a steady and highly visible annuity income stream.

In addition, LCA has performed as expected with its long standing and predictable customer base delivering a revenue of £2.2 million for the year, with a further release from technical reserves of £1.3 million (2016: £0.5 million) as a result of the reduction in the administrative costs per policy.

CORPORATE AND TRUSTEE SERVICES

Turnover from the Corporate and Trustee Services (CTS) division for the year was £4.3 million (2016: £4.4 million) thus accounting for 20% of the Group's total turnover (2016: 25%). This business is generated in Jersey and Gibraltar, with Jersey revenue accounting for circa 57% (2016: 56%) of the CTS business at £2.5 million (2016: £2.5 million) and Gibraltar generating turnover of £1.8 million (2016: £1.9 million).

As noted in previous years' reports, the CTS environment and sector remains challenging, and it is accepted by the Group that this will be a difficult segment to grow organically.

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 £1.2 million in the year (2016: £1.1 million).

FINANCIAL REVIEW

PERFORMANCE IN THE YEAR

Profitability has seen a step change in 2017, compared to that of 2016, but reflects the hard work of building the infrastructure and business development function in previous years.

Clearly, the integration of the LCH acquisition has enabled us to restructure the cost base of those businesses acquired and ensured that profit margins were enhanced.

Group revenue for 2017 amounted to £21.5 million (2016: £17.4 million), and as anticipated EBITDA (Earnings before interest, taxation, depreciation and amortisation) has increased by 55% from £3.1 million in 2016 to £4.8 million in 2017.

Reassuringly, the amount of recurring annuity revenue business continues to increase and still accounts for 75% of 2017 total revenues (2016: 75%).

Finance costs amounted to £0.3 million (2016: £0.1 million) and reflects the debt financing in place for the LCH acquisition. The depreciation and amortisation charge has in turn increased as a result of amortising the client portfolio acquired with LCH and the investment in offices across various jurisdictions. This is £0.5 million in 2017 (2016: £0.3 million).

Profit before tax was £4.0 million for the year being a pleasing uplift of 43% above the 2016 PBT result of £2.8 million notwithstanding one-off costs and the technical reserve release referred to above.

TAX CHARGE AND EARNINGS PER SHARE

The tax charge for the year was £0.1 million (2016: £0.4 million).

The tax charge for the year has been impacted by the refund received in Malta on tax due on dividends paid to companies outside the Group. Whilst the corporate rate on Malta profits is 35%, the refund is 30% on tax due on dividends.

In Malta's infancy and growing stage, the tax charge was higher than the refund as profits were higher than dividends. This year, dividends have been in excess of profits due to the payment of a dividend from last year's reserves. Hence the refund is higher than the charge. But this is a one-off and as profits in Malta become consistent year on year, the position will stabilise and the Group's effective rate will remain at circa 15%.

This significantly lower than expected tax charge together with the increased profitability has resulted in a healthy uplift to the earnings per share from 3.99p in 2016 to 6.69p in 2017. Diluted earnings per share takes into consideration the long term incentive

CHIEF EXECUTIVE OFFICER'S STATEMENT

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% resulting in diluted EPS of 6.37p (2016: 3.87p).

CASHFLOWS

Overall net cash balances at the year end have continued to increase, resulting in cash and cash equivalents of £18.4 million at 31 December 2017 (2016: £11.9 million). Whilst part of this increase is due to cash generated from operating activities of £4.0 million (2016: £1.4 million), part of this is also as a result of the sale of investments acquired as part of the LCH acquisition.

During the year the Group also made the final deferred consideration payment on the LCH acquisition of £0.8 million, having accrued £1.15 million in the previous years' accounts.

The Company continues to have bank borrowings of £3.3 million taken out in October 2016 for the purposes of the acquisition of LCH with repayments being quarterly over the forthcoming two years and as such the first repayment was in January 2018.

As 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 £0.9 million (2016: £1.2 million). The Group policy for pensions is to recognise this accrued income over the period from when an application has been received up to the point when the pension funds are received, at which point the invoice is raised. The decrease in accrued income this year is predominantly as a result of the decrease in QROPS new business in favour of the International SIPP accrued income which is much quicker to convert.

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 remained consistent with the balance as at 31 December 2016 of £3.8 million.

Both the accrued and deferred income will be invoiced and earned in 2018 thus providing visibility on fees for the forthcoming year.

Other large balance sheet items relate to trade and other receivables which stood at £5.6 million as at 31 December 2017 (2016: £5.2 million). Of this amount, trade receivables at the year end stood at £3.4 million (2016: £3.4 million).

DIVIDEND POLICY

The Group Board continues to follow its progressive dividend policy having re-commenced paying dividends in March 2016. In this regard, I am pleased to advise that the Board is recommending the payment of a final dividend of 1.2p per share (2016: 1.0p per share). This together with the interim dividend paid of 0.6p in November 2017 (2016: 0.5p) makes a proposed total dividend for the year of 1.8p per share (2016: 1.5p).

Subject to approval at the Company's Annual General Meeting, the final dividend will be paid on 27 June 2018 to shareholders on the register at the close of business on 1 June 2018. The ordinary shares will become ex-dividend on 31 May 2018.

OUTLOOK

2017 has demonstrated that STM is flexible and able to take advantage of the opportunities that present themselves, whilst managing the challenges that will invariably manifest from time to time. To see 80% of new pensions business literally fall away overnight in March 2017 and still meet original market expectations is testament to that.

Expectations are that 2018 new business volumes and client retention rates will remain in line with those of 2017 post the UK Budget. In addition, we continue to seek earnings enhancing acquisitions in the ROPS and UK SIPP sector. We are confident in the Group's prospects and that we will deliver trading results in line with our previous management expectations for the new financial year.

Furthermore, our key deliverable for the current year is to continue to build on our governance framework and to place more reliance on IT efficiencies.

Our medium term strategy continues to move forward, with an emphasis on improving profit margins, as well as looking to diversify our product range both within the expatriate, as well as UK market. In turn, this will allow us to expand our intermediary base, all of which continues to re-enforce the robustness of the business model.

I would like to take this opportunity to thank all my STM colleagues for their continued hard work and professionalism in carrying out their duties.

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

Alan Kentish

Alan Kentish

Chief Executive Officer

26 March 2018

DIRECTORS' REPORT

The Directors of STM Group Plc present their Report for the year to 31 December 2017 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 23 May 2018.

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 £3,974,000 (31 December 2016: £2,373,000) has been transferred to reserves.

In respect of the year ended 31 December 2017 an interim dividend of 0.6p per share was paid in November 2017 and the Directors recommend that a final dividend of 1.2p per share be paid in June 2018.

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

Malcolm Berryman

Robin Ellison

Alan Kentish has an interest in 6,718,817 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.

In accordance with the Articles of Association, Michael Ross Riddell retires as a Director of the Company at the Annual General Meeting and will not be offering himself for re-election.

POLITICAL AND CHARITABLE DONATIONS

The Group's charitable donations for the period amounted to £8,824 (31 December 2016: £7,400). There were no political contributions in either period.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

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

GOING CONCERN BASIS OF ACCOUNTING

The consolidated financial statements have been prepared on a going concern basis, as it is the Directors' opinion that the Group will be able to meet all liabilities as they fall due. This opinion is derived at from financial and cash projections for the forthcoming twelve months.

SUBSTANTIAL INTERESTS

Save as disclosed in the table below, 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 6 March 2018 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 6 March 2018

	%
CF Miton UK Smaller Companies	14.06
Septer Limited	11.53
Clifton Participations Inc and Alan Kentish	11.31
Pie Fund Management Limited	7.06
River and Mercantile Asset Management LLP	5.64
Kestrel Opportunities	3.72
Miton UK Microcap Trust plc	3.56
KAS Bank NV	3.55

It should be noted that due to the regulation of various of the 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

Deloitte LLP were appointed as auditors to the Company during the year and being eligible, have expressed their willingness to continue in office. A resolution to reappoint Deloitte LLP 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 23 May 2018 is set out on page 53.

By order of the Board

Elizabeth A Plummer

Elizabeth A Plummer
Company Secretary
18 Athol Street
Douglas
Isle of Man IM1 1JA

26 March 2018

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 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 Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and interpretations adopted by the International Accounting Standard Board (IASB). Under company law, the Directors must not approve the financial statements unless they are satisfied that they 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 Group for that period.

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping reliable accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of 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 in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REMUNERATION REPORT

	Remuneration		
Director	2017	2016	Notes
Executive Directors			
Alan Kentish	£200,000	£200,000	a,b
Therese Neish	£157,000	£150,000	a,b
Non-Executive Directors			
Michael Riddell	£50,000	£50,000	b,c
Robin Ellison	£36,000	—	b,d
Malcolm Berryman	£36,000	£24,000	b,e

Notes

a. The Executive Directors are included within an Annual Bonus Scheme that is principally driven by year-on-year increase in earnings per share with a minimum growth of 20%. As such this formula derives a potential bonus payout for the year. However, given the exceptional circumstances arising at the end of the financial year it has been agreed between the Executive Directors and the Remuneration Committee that it would be appropriate to defer the allocation of this payment until certain matters have been concluded upon. No bonus was due for the year ended 31 December 2016 as the minimum target was not met.

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. Robin Ellison was appointed on 22 December 2016.

e. Malcolm Berryman was appointed on 1 May 2016.

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.

The Board will at all times consider this to be best practice, and in this regard will always attempt to adhere to such practices where practical, and that implementation of such practices contributes to a good governance framework that will help the Group to meet its strategic objectives. However, the Board also recognises that, given the size of the Group and the nature of its operations, there will be occasions where it is unlikely to meet such guidance.

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 and 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 meets at least four times during the year. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of the Board meetings. There is a formal schedule of matters reserved to the Board which include the determination of strategy, approval of acquisitions, approval of budget and major capital expenditure.

At Board meetings, the agenda normally comprises a review of the management financial statements, a CEO review of operations, a review of acquisitions and an update on the progress of the Group's other strategic objectives.

The Board has established an Audit & Risk Committee and a Remuneration Committee, both with formally delegated duties and responsibilities. Both Committees comprise Malcolm Berryman, as the Chairman, Michael Riddell and Robin Ellison.

AUDIT & RISK COMMITTEE

The Audit & Risk Committee reviews the integrity of the financial statements of the Group, announcements relating to financial performance, accounting policies, the application of critical accounting judgements and practices, the operation of internal controls, the effectiveness of the financial reporting policies and systems and has delegated power from the Board to exercise the power from shareholders to agree fees for external auditors. It is responsible each year for satisfying itself on the independence and objectivity of external auditors. The Audit & Risk Committee meets at least three times a year.

The Audit & Risk Committee reviews the Group's risk appetite and framework, its policies, methodologies, systems, processes and procedures and the monitoring of all these areas (through a three lines of defence model, the first line being the business systems and controls in place to prevent and detect errors, the second provided by compliance monitoring and the third by internal and external audit review).

The Audit & Risk Committee has primary responsibility for the Group's Risk Appetite Statement which sets out the Group's attitude to risk and the limits of acceptable risk taking.

CORPORATE GOVERNANCE

AUDIT & RISK COMMITTEE (CONTINUED)

The Audit & Risk Committee establishes the high level qualitative Risk Appetite Statement for the Group and requires the subsidiaries to link their own risk appetite to the Group version. The subsidiaries are required to identify and manage Key Risk Indicators. The statement is subject to annual review by the Audit & Risk Committee and the Group Board. The Audit & Risk Committee makes recommendations to the Board in respect of all risks faced by the Group outside of its declared risk appetite.

The Audit & Risk Committee is responsible for the risk framework with all risks identified being recorded in the Corporate Risk Register and reviewed by the Audit & Risk Committee on a biannual basis.

REMUNERATION COMMITTEE

The Remuneration Committee meets at least twice in each year and at such other times as the Chairman of the Remuneration Committee sees fit. The Chairman of the Remuneration Committee is appointed by the Board. The quorum for the Remuneration Committee is two.

The duties of the Committee are to:

- determine and agree with the Board the policy for the remuneration of the Chairman, Executive Directors and other members of the Group Executive team;
- determine individual remuneration packages including bonuses, incentive payments, share options and any other benefits;
- determine the contractual terms on termination and individual termination payment;
- be informed of and advise on changes in benefit structures in the Group; and
- agree the policy for approving expense claims of the Chief Executive and the Chairman of the Board.

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors of STM Group Plc confirm that they carry out an assessment of the principal risks facing the Company, including those that could threaten its business model, performance and solvency.

Through the Group Audit & Risk Committee, the Board retains ultimate responsibility for the Group's risk management framework and appetite. The risk management function oversees the implementation of these new Group policies throughout each of the jurisdictions that the Group operates in and across its whole product range. The compliance functions in each of the jurisdictions provides assurance to the Group Audit & Risk Committee on regulatory and reputational risk through the completion of an annual compliance monitoring plan.

The intention is that the Group's risk management framework and appetite will be embedded in the Group (and subsidiaries') management and governance processes and will be overseen by the Board.

CORPORATE GOVERNANCE

The table below sets out the principal risks and uncertainties facing the Group and how they are currently mitigated.

Area	Description of risk	Examples of mitigating activities
DISTRIBUTION AND MARKET DEMOGRAPHICS	The businesses operate primarily in the British expatriate market which is serviced by a limited number of intermediaries and product providers thus creating a competitive environment.	• Comprehensive business development and retention team • Strong focus on intermediary liaison and customer experience • Innovative product development • Loyal intermediary base
REPUTATIONAL RISK	A circumstance could arise which would adversely impact on the Group's reputation, including adverse publicity from the activities of legislators, pressure groups and the media.	• Subsidiary Board review of regulatory and business changes • Ensure high level of compliance in product and service delivery • Ensure customer focus is the main determinant in decision making and not share price or short term earnings • Complaints are closely monitored • Retained financial PR and media relations consultancy to provide ongoing support and media contact
REGULATORY RISK	Loss arising from regulatory changes in the markets within which the Group operates or breach of existing laws and regulation.	• Subsidiary Boards with experience in regulated businesses • Dedicated compliance functions • Completion of an annual compliance monitoring plan • Head of Enterprise Risk Management monitors legislative changes and supports jurisdictional compliance functions as required • Expert third-party legal and / or compliance advice is sought where necessary • All companies comply with the respective jurisdictions solvency capital requirements
KEY PERSONNEL	The Group could be adversely affected if there was a loss of key personnel or an inability to recruit individual with the appropriate skills set.	• The Group offers competitive remuneration packages including share based incentives • The Board believes succession planning is paramount to the continued business success • The Group provides appropriate training for staff and management • The Group promotes a favourable work environment to retain and attract staff
CYBER SECURITY, DENIAL OF SERVICE AND DATA LOSS	Failure to adequately manage cyber threats could result in operational disruption, data loss and consequently reputational damage and financial loss. New IT developments within the Group will bring a focus on online transactions.	• Periodic testing to identify vulnerabilities and deliver improvements • Daily back-up and secure storage of all systems to minimise data loss • Detailed disaster recovery and business continuity plans in place
FINANCIAL RISKS	The Group has exposure to the following financial risks: • Credit risk • Liquidity risk • Market risk • Interest rate risk • Currency risk	These risks are addressed within Note 22 of the financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STM GROUP PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- **the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as applicable to an Isle Of Man company; and**
- **the financial statements have been prepared in accordance with the requirements of the Isle of Man Companies Act 2006.**

We have audited the financial statements of STM Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and Parent Company statement of financial position;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated statement of cash flow; and
- the related Notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applicable to an Isle of Man company.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS	The key audit matters that we identified in the current year were: • Revenue recognition • Insurance technical reserve • Recoverability of trade debtors & accrued income
MATERIALITY	The materiality that we used in the current year was £400,000 which was determined on the basis of pre-tax profit.
SCOPING	We have identified reporting components across the regulated and trading entities within the jurisdictions in which the Company operates. The regulated and trading entities in Gibraltar, Malta, Jersey and the UK are considered of individual financial significance to the reported results of STM Group Plc (the 'Group'). These components were subjected to audits for Group reporting purposes. Additionally, we have completed specific audit procedures in respect of two further components which, although not financially significant, did present specific audit risks which needed to be addressed. The components within the scope of our audit procedures account for 99.7% of the Group's revenue and 98.9% of pre-tax profits and losses.

CONCLUSIONS RELATING TO GOING CONCERN

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

REVENUE RECOGNITION

KEY AUDIT MATTER DESCRIPTION

The Group's gross revenue as detailled in Note 5 to the financial statements totalled £21.5 million for the year ended 2017 (2016 year end: £17.4 million). Revenue is derived from the provision of services 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. STM Group Plc has four reportable segments: Corporate Trustee Services, Pensions, Life Assurance and Other Services.

Revenue derived from pension services is split between the establishment fee and the management fee. The revenue recognition policy from pension services and administration fees is detailed in Note 2d, 'Use of estimates and judgements' as follows:

Revenue: a) In the first year of membership the establishment and management fees are recognised in full at the time of processing the application; b) from the second year onwards the recognition of 50% of the annual fees at the time of invoicing and the deferral of the remainder from pension trustee and administration fees.

Our key audit matter was pinpointed to the judgements made by management in determining the timing of when the work and the stage of completion for each performance obligation have been fulfilled resulting in revenue being recognised.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We performed a walkthrough of the revenue recognitions process and have assessed the design and implementation of key controls in process. We have reviewed management's assessment as to the timing of when the contractual performance obligations are met. We have challenged management's assumptions by reviewing contracts to understand and verify the performance obligations detailed within these. Additionally, we have reviewed the client service logs to assess the timing of when services are performed throughout the first and subsequent periods. For a sample of clients we verified the service log for the number of services provided before and after invoicing. In addition we verified the WIP recorded during the period to assess the time spent on the onboarding process for new clients.

KEY OBSERVATIONS

Based on our work performed, we observed that the judgements applied were appropriate and the revenue recognition policy is correctly applied.

INSURANCE TECHNICAL RESERVE

KEY AUDIT MATTER DESCRIPTION

The Group's insurance technical reserve as disclosed in Note 20 to the financial statements totalled £1.5 million for the year ended 2017 (2016 year end: £2.8 million). The insurance technical reserve is calculated based on actuarial assumptions by the insurance companies' appointed independent actuary. The measurement is highly subjective. Specifically, assumptions in relation to the lapse rate involve significant judgemental considerations. The insurance technical reserve is deemed an area of judgement in Note 2, 'Use of estimates and judgement'.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STM GROUP PLC

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We have assessed the design and implementation of the key controls which management performs in relation to insurance reserving. We tested the completeness and accuracy of the underlying data used in the actuarial calculations by performing reconciliations of the relevant data back to audited financial information.

We have involved our Deloitte actuarial specialists to challenge the methodology applied and the key assumptions and judgements taken in determining the level of provision required. The review consisted of a re-performance of material areas of the model used by the client and a review of the assumptions and judgements for consistency and comparison to industry benchmarks.

KEY OBSERVATIONS

Based on the audit procedures we have concluded the assumptions relating to expense and lapse rates are appropriate and that the insurance technical reserve recorded appears reasonable.

RECOVERABILITY OF TRADE DEBTORS & ACCRUED INCOME

KEY AUDIT MATTER DESCRIPTION

Trade debtors and accrued income as disclosed in Note 15 to the financial statements totalled £3.4 million and £0.9 million respectively for the year ended 2017 (2016 year end: £3.4 million and £1.2 million respectively). They represent a significant proportion of the Group balance sheet and there is high level of judgement involved in determining their recoverability, due to the risk of inadequate liquidity and resources available in the underlying client structures. 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. Accrued income is deemed an area of judgement in Note 2, 'Use of estimates and judgement'.

There is a risk that the assets on the balance sheet are not billable or recoverable from clients at the reporting date and provisions recorded are not reflective of this fact.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We have assessed the design and implementation of key controls over the financial reporting process.

We have focused on the appropriate ageing of billed and unbilled balances recorded in the financial accounts and review of these aged positions. We have extended the scope of our work on aged balances and, on a sample basis, have challenged the validity of the recorded debtors, accrued income and completeness of provisions by reviewing correspondence with clients, reviewing historical payment patterns and interviewing client relationship managers.

KEY OBSERVATIONS

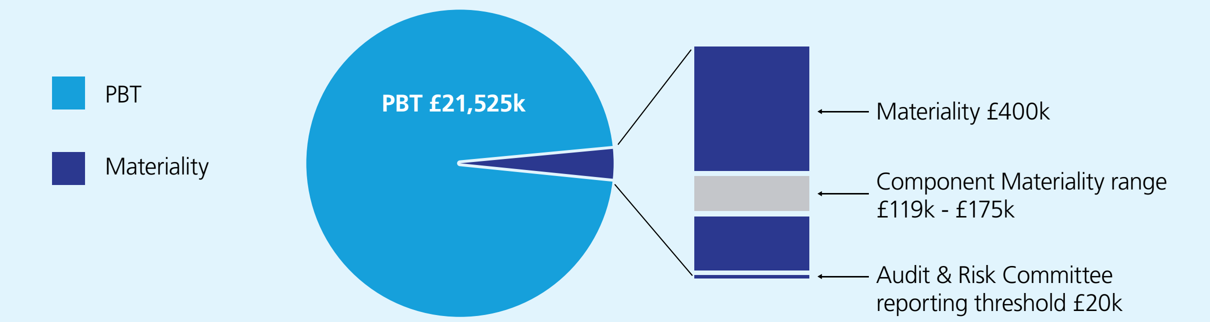
Based on our work performed, we observed that the judgements applied were appropriate and recoverability of trade debtors & accrued income appears reasonable.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	GROUP FINANCIAL STATEMENTS	PARENT COMPANY FINANCIAL STATEMENTS
MATERIALITY	£400,000	£119,000
BASIS FOR DETERMINING MATERIALITY	10% of pre-tax profit rounded down to the nearest £10,000. We determine performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at £280,000 for the 2017 audit.	10% pre-tax profit rounded down to the nearest £10,000. We determine performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected misstatements exceed the materiality for the financial statements as a whole. Parent performance materiality was set at £83,000 for the 2017 audit.
RATIONALE FOR THE BENCHMARK APPLIED	We consider profit before taxation to be the critical benchmark of the performance of the Group and consider this measure to be suitable having compared to other benchmarks: our materiality equates to 1.9% of revenue and 1.3% of equity. 10% of pre-tax profit was taken as there have been no significant changes in the Group's business and is consistent with the other benchmarks considered.	We consider profit before taxation to be the critical benchmark of the performance of the Company.



We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £20,000 for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. The Group operates through a number of legal entities which form reporting components based on service lines. Audits for Group reporting purposes were performed over the significant legal entities covering the main trading jurisdictions, namely the regulated and trading entities in Gibraltar, Jersey, Malta and the UK. Analytical procedures were also performed on trading entities in Spain. Combined, these entities represent 99.7% of revenues and 98.9% of profit before tax. The Group audit team approved component materiality levels, which ranged from £119,000 to £175,000 having regard to the mix of size and risk profile of the Group across the components.

The work on all components was performed by component audit teams in Gibraltar, UK, Jersey and Malta under the direction and supervision of the Group engagement partner. The Group engagement partner visited the Gibraltar component which is the Group's main operating jurisdiction.

Various telephone conference meetings were also held with the auditors in all the jurisdictions tested the consolidation . process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement throughout the audit process covering planning and fieldwork. At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STM GROUP PLC

RESPONSIBILITIES OF DIRECTORS (CONTINUED)

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Section 80C of the Isle of Man Companies Act 2006. 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 auditors' 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.

David Heaton

David Heaton

For and on behalf of **Deloitte LLP**
Douglas, Isle of Man
26 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year from 1 January 2017
to 31 December 2017

	Notes	**Year ended 31 December 2017 £000**	Year ended 31 December 2016 £000
Revenue	7	21,525	17,433
Administrative expenses	9	(16,760)	(14,318)
Profit before other items	10	**4,765**	3,115
OTHER ITEMS			
Finance costs		(262)	(87)
Depreciation and amortisation		(478)	(273)
Profit before taxation		**4,025**	2,755
Taxation	11	(51)	(382)
Profit after taxation		**3,974**	2,373
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		7	87
Total other comprehensive income		7	87
Total comprehensive income for the year		**3,981**	2,460
Earnings per share basic (pence)	19	6.69	3.99
Earnings per share diluted (pence)	19	**6.37**	3.87

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

The Notes on pages 30 to 52 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	31 December 2017 £000	31 December 2016 £000
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,240	889
Intangible assets	13	18,066	18,544
Investments	14	—	792
Total non-current assets		**19,306**	20,225
Current assets			
Investments	14	81	4,239
Accrued income		890	1,214
Trade and other receivables	15	5,607	5,193
Cash and cash equivalents	16	18,363	11,869
Total current assets		**24,941**	22,515
Total assets		**44,247**	42,740
EQUITY			
Called up share capital	17	59	59
Share premium account	17	22,372	22,372
Reserves		8,341	5,231
Total equity attributable to equity shareholders		**30,772**	27,662
LIABILITIES			
Current liabilities			
Liabilities for current tax		1,073	1,070
Trade and other payables	20	10,750	10,708
Total current liabilities		**11,823**	11,778
Non-current liabilities			
Other payables	21	1,652	3,300
Total non-current liabilities		**1,652**	3,300
Total liabilities and equity		**44,247**	42,740

The Notes on pages 30 to 52 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 26 March 2018 and were signed on its behalf by:

AR Kentish
Chief Executive Officer

TG Neish
Chief Financial Officer

26 March 2018

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	**31 December 2017 £000**	31 December 2016 £000
ASSETS			
Non-current assets			
Property, plant and equipment	12	369	498
Intangible assets	13	255	205
Investments	14	21,092	21,442
Total non-current assets		**21,716**	22,145
Current assets			
Trade and other receivables	15	9,221	6,934
Cash and cash equivalents	16	873	204
Total current assets		**10,094**	7,138
Total assets		**31,810**	29,283
EQUITY			
Called up share capital	17	59	59
Share premium account	17	22,372	22,372
Reserves		(845)	(3,144)
Total equity attributable to equity shareholders		**21,586**	19,287
LIABILITIES			
Current liabilities			
Trade and other payables	20	8,572	6,696
Total current liabilities		**8,572**	6,696
Non-current liabilities			
Other payables	21	1,652	3,300
Total non-current liabilities		**1,652**	3,300
Total liabilities and equity		**31,810**	29,283

The Notes on pages 30 to 52 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 26 March 2018 and were signed on its behalf by:

AR Kentish
Chief Executive Officer

TG Neish
Chief Financial Officer

26 March 2018

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year from 1 January 2017
to 31 December 2017

	Notes	Year ended 31 December 2017 £000	Year ended 31 December 2016 £000
OPERATING ACTIVITIES			
Profit for the year before tax		4,025	2,755
ADJUSTMENTS FOR:			
Depreciation and amortisation	12,13	478	262
Loss on sale of fixed asset	12	—	11
Taxation paid		(54)	(583)
Foreign exchange loss		16	—
Unrealised gain on investments		(10)	(291)
Share based payments		55	34
Increase in trade and other receivables	15	(414)	(472)
Decrease in accrued income		324	595
Decrease in trade and other payables	20,21	(456)	(1,154)
Net cash from operating activities		**3,964**	1,157
INVESTING ACTIVITIES			
Disposal of investments		4,950	—
Acquisition of property, plant and equipment	12	(617)	(204)
Consideration paid on acquisition	6	(800)	(4,235)
Cash acquired on acquisition	6	—	5,018
Increase in intangible assets	13	(84)	(113)
Net cash used in investing activities		**3,449**	466
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loan	21	—	3,300
Loan note repayments	20	—	(300)
Treasury shares sold / (purchased)		25	(45)
Dividends paid	17	(951)	(832)
Net cash from financing activities		**(926)**	2,123
Increase in cash and cash equivalents		**6,487**	3,746
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		6,487	3,746
Translation of foreign operations		7	87
Balance at start of year		11,869	8,036
Balance at end of year	16	**18,363**	11,869

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year from 1 January 2017
to 31 December 2017

	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 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	—	—	—	—	87	—	87
Transactions with owners, recorded directly in equity							
Dividend paid	—	—	(832)	—	—	—	(832)
Share based payments	—	—	—	—	—	34	34
Treasury shares purchased	—	—	—	(45)	—	—	(45)
At 31 December 2016	**59**	**22,372**	**5,420**	**(251)**	**28**	**34**	**27,662**
Balance at 1 January 2017	59	22,372	5,420	(251)	28	34	**27,662**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR							
Profit for the year	—	—	3,974	—	—	—	3,974
Other comprehensive income							
Foreign currency translation differences	—	—	—	—	7	—	7
Transactions with owners, recorded directly in equity							
Dividend paid	—	—	(951)	—	—	—	(951)
Share based payments	—	—	—	—	—	55	55
Treasury shares purchased	—	—	—	25	—	—	25
At 31 December 2017	**59**	**22,372**	**8,443**	**(226)**	**35**	**89**	**30,772**

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 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**
Balance at 1 January 2017	59	22,372	(3,178)	34	**19,287**
Profit for the year	—	—	3,195	—	3,195
Shares issued in year	—	—	—	—	—
Share based payments	—	—	—	55	55
Dividend paid	—	—	(951)	—	(951)
31 December 2017	**59**	**22,372**	**(934)**	**89**	**21,586**

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 2017 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 (IFRSs) 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. Going concern basis of accounting

The consolidated financial statements have been prepared on a going concern basis, as it is the Directors' opinion that the Group will be able to meet all liabilities as they fall due. This opinion is derived at from financial and cash projections for the forthcoming twelve months.

c. Functional and presentational currency

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

d. Use of estimates and judgements

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) In the first year of membership the establishment and management fees are recognised in full at the time of processing the application; b) from the second year onwards the recognition of 50% of the annual fees at the time of invoicing and the deferral of the remainder from pension trustee and administration fees	Judgement
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	Estimate
Note 3s	Contingent liabilities	Judgement
Notes 6 & 20	Insurance technical reserve: this is calculated based on actuarial assumptions by the insurance companies' appointed independent actuary and involves significant judgements	Estimate
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	Judgement
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	Judgement
Note 23	Provisions: judgement applied in determining the conditions surrounding the debtors to determine whether there is objective evidence of impairment	Judgement

e. 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.

f. 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 remeasured at each reporting date. Subsequent changes to the contingent consideration are adjusted against goodwill.

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. Non-monetary assets and liabilities are translated at the exchange rate at the date of the transaction.

ii. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Pound 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 establishment fee and the management fee. In the first year of membership the establishment and management fees are recognised in full at the time of processing the application so as to reflect the time effort 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. Lease incentives received are recognised as an integral part of the total lease expensed 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 and the BUPA portfolio 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 transactions 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. The amount of the provision is based on a best estimate of the expenditure required to settle 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:

- IAS 7 (amended) Disclosure Initiative
- IAS 12 (amended) Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements to IFRSs 2014-2016 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 2017, and have not been applied in preparing these consolidated financial statements.

IFRS 15 replaces existing revenue recognition guidance, including IAS 18 Revenue and establishes a comprehensive framework for determining whether, how much and when revenue is recognised. As such it could change how and when revenue from contracts with customers is recognised. With regards to the sale of goods IFRS 15 requires revenue to be recognised when a customer obtains control of the goods. With regards to the provision of services revenue is to be recognised either at the point of time or over a period of time based on when the service is transferred to the customer. STM has a combination of products and services that it offers and therefore some revenue will be at a point of time such as establishment fees for trusts and companies, and over time such as the provision of trustee services. The standard is effective for annual periods beginning on or after 1 January 2018.

IFRS 9 Financial Instruments sets our requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard is effective for annual periods beginning on or after 1 January 2018.

Amendments to IFRS 2: Classification and Measurement of Shared-based Payment Transactions. The standard is effective for annual periods beginning on or after 1 January 2018.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019.

At the time of signing the financial statements the Group was still assessing the impact of these standards on the consolidated financial statements and as such the extent of the impact has not yet been fully determined.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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. The amount of any such provision is based on a best estimate of the expenditure required to settle this.

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 finial 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 (Note 18).

v. Insurance products

The life assurance business account for insurance products as investment contracts as no significant insurance risk is attached to these contracts. The assets and liabilities of the contracts are included in the Group's balance sheet only if it is deemed that control exists over the investment decision (Note 8).

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 approximate 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 four reportable segments: Corporate Trustee Services, Pensions, 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 2017 £000**	31 December 2016 £000
Pensions	10,157	9,229
Life Assurance	5,851	2,806
Corporate Trustee Services	4,341	4,366
Other Services	1,176	1,032
Total	**21,525**	17,433

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

	Turnover	
Geographical Segment	**31 December 2017 £000**	31 December 2016 £000
Gibraltar	10,675	7,646
Jersey	2,492	2,462
Malta	6,180	6,542
United Kingdom	1,666	271
Other	512	512
Total	**21,525**	17,433

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 was highly complementary to STM's existing business and strategy and contributed to the growth of STM. It provided 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 also benefited from cost synergies, economies of scale and a good quality management team that has been retained by the Company. All of these factors contributed to the goodwill recognised.

The acquisition was accounted for using the acquisition method.

Consideration for the acquisition on completion date consisted of the following payments:

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

The contingent consideration was payable within the first year following acquisition and was dependent on certain regulatory capital requirements being met and standard indemnities provided by the Sellers. The Group estimated the fair value of this to be the maximum amount payable, being £1,150,000 on acquisition.

In October 2017, the Group assessed the contingent consideration, and made a cash payment of £800,000 thus reducing the initial contingent liability by £350,000. The goodwill on acquisition has been remeasured and adjusted to reflect the fair value of the contingent consideration.

Goodwill arising from the acquisition has been remeasured as follows:

	Goodwill on Acquisition £000	Adjustment £000	Goodwill as at 31 December 2017 £000
Total acquisition cost	5,385	(350)	5,035
Fair value of identifiable net assets	(4,850)	—	(4,850)
Goodwill	**535**	**(350)**	**185**

7. REVENUE

	31 December 2017 £000	31 December 2016 £000
Revenue from administration of assets	21,525	17,433
Total revenues	**21,525**	17,433

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.

For the purposes of these consolidated financial statements, only the shareholders' funds and surplus that emerges on the long term fund have been included. The assets invested by the life assurance clients are determined by either the client or their advisor and are segregated from the assets and liabilities of other clients. Therefore the Group considers that it does not control the investment decision nor accepts any financial risk in respect of that decision and, therefore, the investment assets and associated liability to the customer should not be presented on the balance sheet.

Within total revenue of the Group of £21,525,000 (2016: £17,433,000) there is an amount of £5,851,000 (2016: £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 2017 £000**	Year ended 31 December 2016 £000
Gross premiums written	132,821	173,876
Policy withdrawals	(42,063)	(23,245)
Net operating expenses	(10,101)	(85,268)
Change in long term business provisions	—	(3)
Increase in long term reserves	(77,324)	(63,574)
Surplus on long term fund	**3,333**	1,786

Assets held to cover liabilities	**31 December 2017 £000**	31 December 2016 £000
Open market value	315,119	239,435
Cost	304,959	255,644

8. LIFE ASSURANCE OPERATING SEGMENT *(continued)*

STM LIFE ASSURANCE PCC PLC *(continued)*

Technical provision for liabilities	**31 December 2017 £000**	31 December 2016 £000
Balance at start of year	239,435	164,834
Increase in technical provision for liabilities	77,323	63,574
Foreign exchange movement on liabilities	(1,639)	11,027
Balance at end of year	**315,119**	239,435

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. Therefore, the comparative information covers the 15 month period ended 31 December 2016.

Technical account – long term business	**31 December 2017 £000**	31 December 2016 £000
Investment income	3,625	7,509
Unrealised gain on investments	19,138	37,535
Other technical income - net	2,437	1,327
Change in long term business provision	1,276	500
Change in long term reserves	(24,151)	(45,043)
Surplus on long term fund	**2,325**	1,828

Assets held to cover liabilities	**31 December 2017 £000**	31 December 2016 £000
Open market value	315,839	352,382
Cost	296,701	234,552

Technical provision for liabilities	**31 December 2017 £000**	31 December 2016 £000
Balance at start of year	352,383	367,189
Increase in technical provision for liabilities	24,151	45,043
Effects of transfers from investment contracts	(60,695)	(59,850)
Balance at end of year	**315,839**	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 2017 £000	31 December 2016 £000
Wages and salaries	8,522	7,078
Social Insurance costs	389	396
Pension contributions	160	110
Share based payments	55	34
Total personnel expenses	**9,126**	7,618

Average number of employees

Group	**31 December 2017 Number**	31 December 2016 Number
Average number of staff employed (including Executive Directors)	**201**	173

Company	**31 December 2017 Number**	31 December 2016 Number
Average number of staff employed (including Executive Directors)	**6**	12

10. PROFIT BEFORE OTHER ITEMS

Profit before other items of £4,765,000 (31 December 2016: £3,115,000), was arrived at after charging the following to the income statement:

	31 December 2017 £000	31 December 2016 £000
Directors' remuneration	664	527
Auditors' remuneration	244	158
Operating lease rentals	830	651

11. TAXATION

	31 December 2017 £000	31 December 2016 £000
Current tax expense	51	382
Release from prior years	—	—
Total tax expense	**51**	382

Reconciliation of existing tax rate	**31 December 2017 £000**	31 December 2016 £000
Profit for the year	4,025	2,755
Total income tax expense	**51**	382
Profit before tax	4,025	2,755
Income tax using the Company's domestic rate - 0%	—	—
Effect of tax rates in other jurisdictions	51	382
Total tax expense	**51**	382

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. There are no known factors which will impact the effective tax rate.

12. PROPERTY, PLANT AND EQUIPMENT

Group	Motor Vehicles £000	Office Equipment £000	Leasehold Improvements £000	**Total £000**
Costs				
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**
As at 1 January 2017	15	1,814	894	2,723
Additions at cost	—	266	351	617
Disposals	—	(26)	(604)	(630)
As at 31 December 2017	**15**	**2,054**	**641**	**2,710**
Depreciation				
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**
As at 1 January 2017	3	1,036	795	1,834
Charge for the year	3	150	113	266
Disposals	—	(26)	(604)	(630)
As at 31 December 2017	**6**	**1,160**	**304**	**1,470**
Net Book Value				
As at 31 December 2016	12	778	99	889
As at 31 December 2017	**9**	**894**	**337**	**1,240**

Company	Office Equipment £000	Leasehold Improvements £000	**Total £000**
Costs			
As at 1 January 2016	723	567	1,290
As at 31 December 2016	**723**	**567**	**1,290**
As at 1 January 2017	723	567	1,290
Disposals	—	(567)	(567)
As at 31 December 2017	**723**	**—**	**723**
Depreciation			
As at 1 January 2016	260	405	665
Charge for the year	46	81	127
As at 31 December 2016	**306**	**486**	**792**
As at 1 January 2017	306	486	792
Charge for the year	48	81	129
Disposals	—	(567)	(567)
As at 31 December 2017	**354**	**—**	**354**
Net Book Value			
As at 31 December 2016	417	81	498
As at 31 December 2017	**369**	**—**	**369**

13. INTANGIBLE ASSETS

Group	Goodwill £000	Client Portfolio £000	Product Development £000	**Total £000**
Costs				
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**
Balance as at 1 January 2017	17,262	1,000	502	18,764
Additions	—	—	84	84
Reclassification	(422)	422	—	—
Adjustment (Note 6)	(350)	—	—	(350)
Balance at 31 December 2017	**16,490**	**1,422**	**586**	**18,498**
Amortisation and impairment				
Balance as at 1 January 2016	—	—	178	178
Charge for the year	—	17	25	42
Balance at 31 December 2016	**—**	**17**	**203**	**220**
Balance as at 1 January 2017	—	17	203	220
Charge for the year	—	100	112	212
Balance at 31 December 2017	—	**117**	**315**	**432**
Carrying amounts				
At 31 December 2016	17,262	983	299	18,544
At 31 December 2017	**16,490**	**1,305**	**271**	**18,066**

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 2017, 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 2016 and 1 January 2017	15,815	470	977	17,262
Contingent consideration (Note 6)	(350)	—	—	(350)
Reclassification	—	(422)	—	(422)
At 31 December 2017	**15,465**	**48**	**977**	**16,490**

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 13% has been used in discounting the projected cash flows. The assumptions applied for turnover growth range between -4% and 4% 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 between 0% and 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)*

Group (continued)

Client portfolio

Client portfolio represents the value assigned to the individual client portfolios acquired through the acquisition of London & Colonial Holding Ltd in 2016 and the BUPA portfolio which was reclassified during the year. Both are amortised over the useful life which has been determined to be ten years.

Company	Product Development £000
Costs	
As at 1 January 2016	167
Additions	121
As at 31 December 2016	**288**
As at 1 January 2017	288
Additions	79
As at 31 December 2017	**367**
Amortisation and impairment	
As at 1 January 2016	69
Charges for the year	14
As at 31 December 2016	**83**
As at 1 January 2017	83
Charges for the year	29
As at 31 December 2017	**112**
Carrying amounts	
As at 31 December 2016	205
As at 31 December 2017	**255**

14. Investments

Group – Other investments

Investments relate to £81,000 (2016: £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. Investments in UK Government Gilts with the fair value of £792,000 held at the year ended 31 December 2016 were disposed during 2017 year.

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 2017 £000	31 December 2016 £000
Shares in Group undertakings		
Balance at start of year	21,442	16,052
Investment in new subsidiaries	—	5
Acquisitions	—	5,385
Adjustments	(350)	—
Balance at end of year	**21,092**	21,442

15. TRADE AND OTHER RECEIVABLES

Group	31 December 2017 £000	31 December 2016 £000
Trade receivables	3,434	3,397
Other receivables	2,173	1,796
Total	**5,607**	5,193

Company	31 December 2017 £000	31 December 2016 £000
Receivables due from related parties	8,666	6,588
Other receivables	555	346
Total	**9,221**	6,934

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 2017 £000	31 December 2016 £000
Bank balances	18,363	11,869
Cash and cash equivalents in the statement of cash flows	**18,363**	11,869

Company	31 December 2017 £000	31 December 2016 £000
Bank balances	873	204
Cash and cash equivalents in the statement of cash flows	**873**	204

17. CAPITAL AND RESERVES

Authorised, called up, issued and fully paid	31 December 2017 £000	31 December 2016 £000
59,408,087 ordinary shares of £0.001 each (2016: 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 537,780 (2016: 432,358) shares at 31 December 2017.

Share premium
There were no new shares issued during the years ended 31 December 2017 and 31 December 2016.

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 2017 £000	31 December 2016 £000
1.6 pence per qualifying ordinary share (2016: 1.4 pence)	951	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 2017 £000	31 December 2016 £000
1.2 pence per qualifying ordinary share (2016: 1.0 pence)	713	594

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 £55,000 (2016: £34,000).

19. EARNINGS PER SHARE

Earnings per share for the year from 1 January 2017 to 31 December 2017 is based on the profit after taxation of £3,974,000 (2016: £2,373,000) divided by the weighted average number of £0.001 ordinary shares during the year of 59,408,087 basic (2016: 59,408,087) and 62,378,491 dilutive (2016: 61,250,387) in issue.

A reconciliation of the basic and diluted number of shares used in the year ended 31 December 2017 is:

	31 December 2017	31 December 2016
Weighted average number of shares	59,408,087	59,408,087
Share incentive plan (Note 18)	2,970,404	1,842,300
Diluted	**62,378,491**	61,250,387

20. TRADE AND OTHER PAYABLES

Group	31 December 2017 £000	31 December 2016 £000
Deferred income	3,751	3,730
Trade payables	357	436
Insurance technical reserve	1,530	2,805
Bank loan	1,648	—
Contingent consideration	—	1,150
Other creditors and accruals	3,464	2,587
Total	**10,750**	10,708

Company	31 December 2017 £000	31 December 2016 £000
Owed to related parties	6,364	5,323
Bank loan	1,648	—
Contingent consideration	—	1,150
Other creditors and accruals	560	223
Total	**8,572**	6,696

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 £3,751,000 as at 31 December 2017 (2016: £3,730,000).

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

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

Group	31 December 2017 £000	31 December 2016 £000
Bank loan	1,652	3,300
Total	**1,652**	3,300

Company	31 December 2017 £000	31 December 2016 £000
Bank loan	1,652	3,300
Total	**1,652**	3,300

During 2016 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 commencing January 2018. This loan 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 & 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. A change of 100 basis points in an interest rate would have increased or decreased equity and profit or loss by £33,000 after tax (2016: £33,000).

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 Pound Sterling (£).

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

22. FINANCIAL RISK MANAGEMENT *(continued)*

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 2017 was negative. Net debt compared to equity at 31 December 2017 was as follows:

	31 December 2017 £000	31 December 2016 £000
Total liabilities	13,475	15,078
Less: cash and cash equivalents	18,363	11,869
Adjusted net debt	(4,888)	3,209
Total equity and adjusted equity	**30,772**	27,662
Adjusted net debt to adjusted equity ratio	**(0.16)**	0.12

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 2017 £000	31 December 2016 £000
Investments	81	5,031
Trade and other receivables	5,607	5,193
Cash and cash equivalents	18,363	11,869
Total	**24,051**	22,093

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 2017 and 31 December 2016.

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 2017 £000	**Individual Impairment 31 December 2017 £000**	**Total £000**	Gross receivables 31 December 2016 £000	Individual Impairment 31 December 2016 £000	Total £000
Not past due	1,202	—	1,202	970	—	970
Past due 0–30 days	625	—	625	434	—	434
Past due 31–120 days	209	—	209	489	—	489
More than 120 days past due	1,692	(294)	1,398	2,243	(739)	1,504
Total	**3,728**	**(294)**	**3,434**	4,136	(739)	3,397

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 2017 £000	31 December 2016 £000
Balance at start of year	739	699
Impairment loss (released)/increased	6	40
Amounts written off	(451)	—
Balance at end of year	**294**	739

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 2017	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	357	357	357	—	—
Bank loan	3,300	3,517	871	877	1,769
Other creditors and accruals	3,464	3,464	3,464	—	—
Corporation tax payable	1,073	1,073	1,073	—	—
Total	**8,194**	**8,411**	**5,765**	**877**	**1,769**

23. FINANCIAL INSTRUMENTS *(continued)*

Liquidity Risk (continued)

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	—	—
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	—	—
Total	**8,543**	**8,543**	**4,093**	**1,150**	**3,300**

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 2017 £000	31 December 2016 £000
Less than one year	620	704
Between one year and five years	2,736	2,573
More than five years	458	980
Total	**3,814**	4,257

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

Finance Leases

Non-cancellable finance leases are payable as follows:

	31 December 2017 £000	31 December 2016 £000
Less than one year	10	10
Between one year and five years	12	22
More than five years	—	—
Total	**22**	**32**

25. RELATED PARTIES

Transactions with key management personnel and Directors' Compensation

Key management compensation comprised:

	31 December 2017 £000	31 December 2016 £000
Short term employee benefits	628	505
Share-based payments	36	22
Total	**664**	527

Key management personnel and Director transactions

Trusts and related parties connected to the Directors held 12% of the voting shares of the Company as at 31 December 2017 (2016: 13%).

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 £5,263 for the period to 31 December 2017 (2016: £7,365), of which £nil was outstanding at 31 December 2017 (2016: £nil).

Greystone Trust Company Limited, of which Michael Riddell is a Director, charged the Company £60,700 for services rendered during 2016 (2016: £62,526), of which £nil was outstanding at 31 December 2017 (2016: £nil).

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 2017 the Group owed Fiander Properties Limited, a company related to the Group by virtue of common ownership, £100,602 (2016: £100,602).

During the year the Company charged STM Fidecs Life, Health and Pensions Limited a head office charge of £nil (2016: £nil). The Company also received dividends of £2,616,902 (2016: £2,054,000) from STM Malta Limited, £350,000 (2016: £875,000) from STM Fidecs Limited, £965,000 (2016: £nil) from London & Colonial Holdings Limited and £1,750,000 from STM (Caribbean) Limited (2016: £nil).

26. GROUP ENTITIES

Principal subsidiaries

As at 31 December 2017 the Company owned the following subsidiaries which are regarded as the principal trading operations of the Group.

Name of subsidiary	Country of incorporation	Ownership interest 31 December 2017	Ownership interest 31 December 2016	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	100% directly	Holding company
London & Colonial Assurance Plc	Gibraltar	100% indirectly	100% indirectly	Administration of clients' assets
London & Colonial Services Limited	England	100% indirectly	100% indirectly	Administration of clients' assets
London & Colonial Central Services Limited	England	100% indirectly	100% indirectly	Administration of clients' assets
London & Colonial (Trustee Services) Limited	Gibraltar	100% indirectly	100% indirectly	Administration of clients' assets

27. SUBSEQUENT EVENTS

Subsequent to the year end, on 20 February 2018, STM Malta Ltd, a wholly owned subsidiary of the Company acquired the entire share capital of Harbour Pensions Ltd. Harbour Pensions Ltd is a licenced retirement scheme administrator based in Malta with some 1,600 members. Following the integration, Harbour is expected to contribute annual recurring revenues of £800,000 and profit before tax of £400,000.

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 23 May 2018 at 11:00 a.m. 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 2017 and the reports of the Directors and auditors thereon be received.
2. THAT the final dividend of 1.2p per share recommended by the Directors be declared to be payable on 27 June 2018 to shareholders registered at the close of business on 1 June 2018, the ex-dividend date of the shares is 31 May 2018.
3. THAT Michael Ross Riddell has retired from office by rotation in accordance with Article 88 of the Company's Articles of Association (the 'Articles') and as such the vacancy created by the resignation will not be filled.
4. THAT Deloitte LLP having been appointed as auditors during the year 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 2019.

Special Resolution

5. 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
26 March 2018

Notes:

Resolutions 1 to 4 are to be proposed as Ordinary Resolutions. Resolution 5 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 a.m. on 21 May 2018 (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 11:00 a.m. on 21 May 2018 (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

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Company Secretary
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