ANNUAL REPORT & ACCOUNTS 2018

STM GROUP PLC

STM is a multi-jurisdictional financial services group listed on AIM, a market operated by the London Stock Exchange. The Group specialises in the administration of client assets in relation to retirement, estate and succession planning and wealth structuring.

Today, the Group has operations in the UK, Gibraltar, Malta, Jersey and Spain. STM has developed a range of pension products for UK nationals and internationally domiciled clients and has two Gibraltar life assurance companies which provide life insurance bonds – wrappers in which a variety of investments, including investment funds, can be held.

STM's growth strategy is focussed on both organic initiatives and strategic acquisitions.

FINANCIAL HIGHLIGHTS

REVENUE	2018	2017
Reported	£21.4m	£21.5m
Underlying*	£20.5m	£20.2m

PROFIT BEFORE TAX	2018	2017
Reported	£4.0m	£4.0m
Underlying*	£3.7m	£3.2m

RECURRING REVENUE

2018	£16.3m	(76%)
2017	£16.1m	(75%)

UNDERLYING PROFIT MARGINS

2018	18%
2017	16%

TOTAL DIVIDENDS

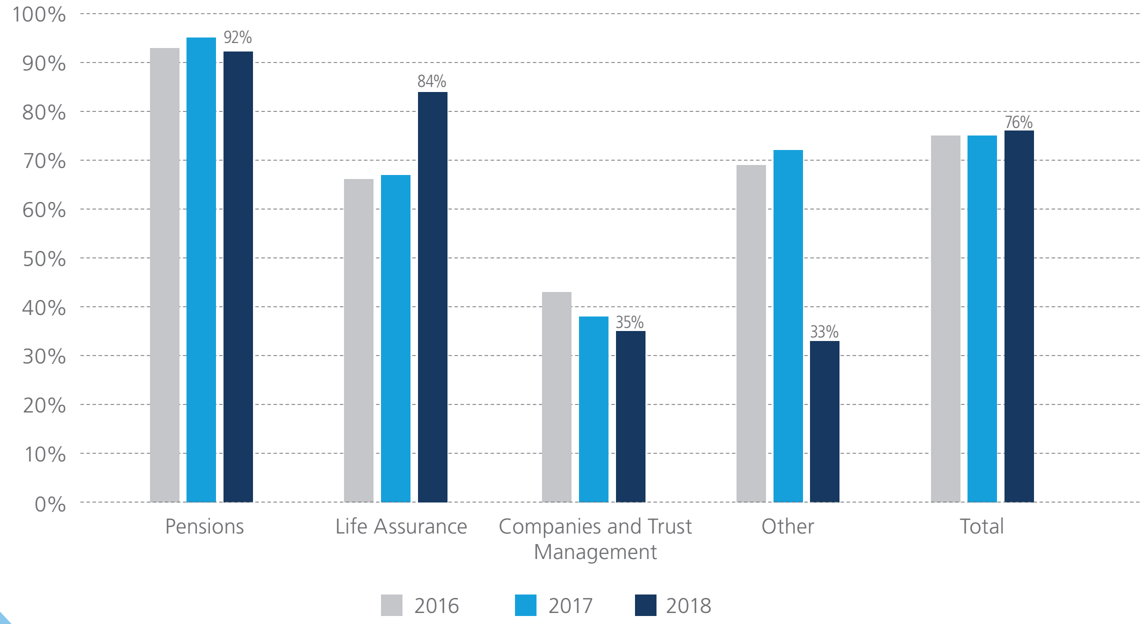
2018	2.0p
2017	1.8p

CASH & CASH EQUIVALENTS (NET OF BORROWING)

2018	£15.6m
2017	£15.1m

* Net of certain transactions which do not form part of the regular operations of the business.

RECURRING REVENUE



REVENUE BY OPERATING SEGMENT

Pensions
£11.6m

Corporate Trustee Services
£4.2m

Life Assurance
£4.7m

Other Services
£1.0m

OPERATIONAL HIGHLIGHTS

- Continued strengthening of our governance platform and risk management framework
- Strong board composition – new members – chairman, non-executive director and COO
- Proven bolt-on acquisition strategy with completion of Harbour and fully integrated within 6 months
- Carey Pensions acquisition – stronger focus on the UK market
  - ✓ Access to more products
  - ✓ Entry into the ever-growing UK workplace pensions solution market
  - ✓ Consolidation opportunity now possible for workplace pensions
- Continued investment in technology to provide a better customer journey and improved margins

PRODUCT OFFERING

SELF-INVESTED PERSONAL PENSIONS SCHEMES (SIPPS)

UK regulated products. STM has products specifically tailored to serve both the UK and international market.

LIFE ASSURANCE WRAPPERS

With two life insurance companies in the Group (one in Gibraltar and one becoming based in Malta) STM is able to offer wrapper product solutions to both the EU and UK markets.

QUALIFYING RECOGNISED OVERSEAS PENSION SCHEMES (QROPS)

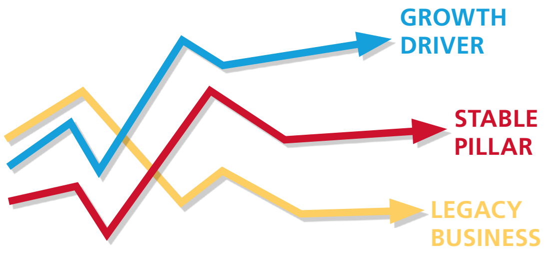
Exported UK pensions administered in Malta and Gibraltar. Since legislation changes of 2017 this is no longer STM's primary growth driver. But with an attrition rate of only 4% and still open to EEA residents this provides a solid basis for STM's recurring revenue.

UK WORKPLACE PENSIONS

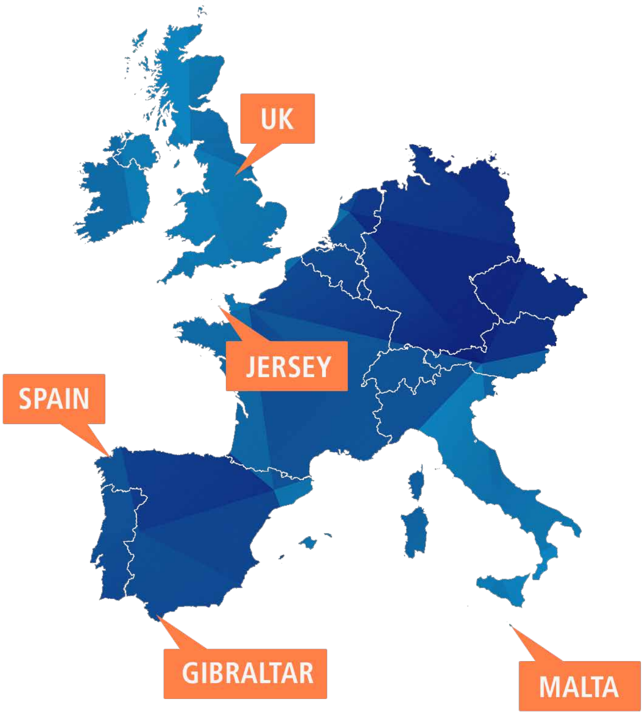
Following acquisition of Carey Pensions in February 2019, strategic entry into the dynamic sector of auto-enrolment.

COMPANY & TRUST MANAGEMENT SERVICES (CTS)

STM's legacy business administered from Gibraltar (since 1990's) and Jersey (since 2009). Traditional company and trust management. No longer core part of STM's strategy but still generated 20% of the overall revenues.



MAIN TRADING JURISDICTIONS



United Kingdom	Gibraltar
Products Administered:	Products Administered:
SIPPS	QROPS
Workplace pensions	Life Bond & Annuities
	Trust & Company

Malta	Jersey
Products Administered:	Products Administered:
QROPS	Trust & Company

270

Our Colleagues

Following the acquisition of Carey Pensions the STM family is now in excess of 270 colleagues.

92,700

Our Customers

STM gives peace of mind to their customers by helping to look after their financial futures

126

Countries

STM looks after customers living all over the world. Currently this equates to having customers in 126 countries.

"WE HAVE DELIVERED ON THE STRATEGY TO BE A MORE UK FOCUSSED GROUP BUILDING A HEAD OFFICE TEAM AND HAVING MORE PRODUCTS FOCUSSED ON THE UK MARKET."

CHAIRMAN'S STATEMENT

DUNCAN CROCKER
Chairman

IT GIVES ME GREAT PLEASURE TO PRESENT MY FIRST SET OF FINANCIAL STATEMENTS FOR STM AS CHAIRMAN OF THE BOARD.

Our 2018 result has been the backdrop to another year of great change for STM in a number of ways which have all contributed in one way or another to making the Group a stronger and more robust operation.

My tenure as Chair started in September, and it has certainly been a busy six months or so, with a focus on continuing to build on the governance structure and core capabilities as set out earlier in the year. In addition, we have further refined our growth strategy around the organic and acquisitive opportunities in both our existing and complementary markets.

Our 2018 profits are underpinned by the predictable recurring revenue stream across the various trading operations of the Group, which has allowed for the delivery of a healthy £4.0 million profit before tax; a profit similar to 2017 and a 16% increase in underlying profitability, despite having absorbed certain costs associated with strengthening the corporate governance structure.

Progress has been made on key fronts during 2018 and early 2019.

Operationally, we have delivered on the strategy to be a more UK focussed group building a head office team and having more products focussed on the UK market. We successfully fully integrated the Harbour business by September of last year having only completed in February, and we identified a further UK acquisition target, namely Carey Pensions, that received FCA approval in February 2019.

From a governance point of view, we have appointed a further independent NED to the Board, recruited a Chief Operating Officer who started in January 2019 to support our existing executive team, and have appointed a UK based full time Group Company Secretary who will join us in April 2019.

My vision for our future is to chair a well structured, operationally disciplined and ambitious business that can deliver on the expectations of all its stakeholders. In this regard, the executive team has refined its short term strategy to be executed by the strengthened Board, to achieve step-change growth in the coming years. This will be a combination of organic growth and acquisitions using resources available to the Group, and a more structured service proposition that can support all of the trading operations overall, where appropriate.

I would like to take this opportunity to personally thank all of the Group's Directors, executive and all our colleagues across the Group for their efforts during 2018. I look forward to 2019 as STM sets out on its stimulating and progressive journey.

Duncan Crocker

Duncan Crocker
Chairman
25 March 2019

"WE HAVE SEEN A 16% INCREASE IN UNDERLYING PROFITABILITY BETWEEN 2017 AND 2018. THIS INCREASE HAS BEEN CREATED BY A COMBINATION OF IMPROVED OPERATING MARGINS, ACQUISITIONS AND ORGANIC GROWTH."

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 2018. IT HAS SEEMED A LONG AND BUSY YEAR BUT DESPITE SOME SIGNIFICANT CHALLENGES AND COSTS, I AM PLEASED TO SAY THAT THE GROUP HAS PERFORMED IN LINE WITH EXPECTATIONS AND DELIVERED AN OVERALL PROFIT BEFORE TAX OF £4.0 MILLION (2017: £4.0 MILLION).

Each of the operating entities has contributed as expected, and we have seen a 16% increase in underlying profitability between 2017 and 2018 as explained in more detail under Financial Review below. This increase has been created by a combination of improved operating margins, acquisitions and organic growth.

During 2018, a significant amount of management time and resources have been dedicated to implementing the recommendations of the skilled person review report that was finalised in June 2018. Whilst this has increased costs as part of continuing to build on our governance structure, the outcome of such investment can only strengthen our business going forward.

We have been busy on the acquisition front, completing the purchase of Harbour in Malta in February 2018, which was fully integrated within the six months expected timeframe. Pleasingly it is delivering the expected increase in contribution to the Malta business, and performing in line with our expectations.

Further to this, in October 2018 we signed the Sale and Purchase Agreement for the acquisition of the UK based Carey pensions, which was approved by the UK regulators and completed in February 2019. With an annual revenue of circa £3.5 million, and growing, this gives us some exciting integration and diversification opportunities for 2019 and beyond. We expect this acquisition to be earnings neutral in the year ended 31 December 2019 and contribute to profit in the financial year ending 31 December 2020. This acquisition follows our intention to have a more UK focussed business.

The SIPP market, and to a lesser extent the QROPS market, have been in a state of flux during 2018, centering around some key legal cases (such as Berkeley Burke and Adams) which are still to conclude, leaving the sector in a period of uncertainty. Additionally, the debate over whether a Defined Benefit transfer should proceed or not is causing uncertainty in the market place for pension providers and intermediaries. Despite this we saw a steady and predictable flow of new business during the year.

As part of our investment strategy into the business, we have successfully recruited a Chief Operating Officer. This was a key appointment to the Board with the aim of being able to allow the executives to better share the responsibilities of running the business, so that there will be more time available for driving the business forward. On this note, I am delighted that Pete Marr has joined us in early 2019 in that role.

In addition, the investment in our governance and strategy continued with the appointment in the second half of the year of Duncan Crocker as Chairman, and Graham Kettleborough as a further Non-Executive Director.

CHIEF EXECUTIVE OFFICER'S STATEMENT

FINANCIAL REVIEW

PERFORMANCE IN THE YEAR

Profitability remains similar to that of 2017 and amounted to a reported profit before tax (PBT) of £4.0 million. Within this measure, however, are certain transactions which do not form part of the regular operations of the business, such as the releases on the technical reserve, adjustments due to changes in accounting policies and exceptional costs. Therefore, removing these to provide the underlying profit before tax is a more appropriate measure to understand the core performance of the business. As shown in the table below there has been a solid uplift in underlying profitability of 16% from £3.2 million to £3.7 million.

Similarly, underlying Group revenue (defined on a consistent basis with underlying PBT) for 2018 has gone up from £20.2 million to £20.5 million, with reported revenue of £21.4 million (2017: £21.5 million).

The recurring annual revenue is an important key performance indicator for the Board which is defined as annual management charges and contractual fixed fee agreements. This remains steady at 76% of 2018 total revenues (2017: 75%), thus a total of £16.3 million (2017: £16.1 million).

RECONCILIATION OF REPORTED TO UNDERLYING MEASURES:

	PROFIT BEFORE TAX		REVENUE	
	2018 £M	2017 £M	2018 £M	2017 £M
Reported measure	4.0	4.0	21.4	21.5
Less: release on technical reserve	(0.6)	(1.3)	(0.6)	(1.3)
Less: adjustment on Harbour revenue*	(0.3)	–	(0.3)	–
Add: costs on skilled person review on Gibraltar regulated entities	0.3	–	–	–
Add: legal costs	–	0.5	–	–
Add: other non-recurring costs	0.3	–	–	–
Underlying measure	3.7	3.2	20.5	20.2

* *please see pensions section under Operational Overview below*

EBITDA (Earnings before interest, taxation, depreciation and amortisation) remains a solid and predictable percentage of revenue at 22% (2017: 22%) resulting in an actual EBITDA figure of £4.7 million (2017: £4.8 million).

Financing, depreciation and amortisation costs remain similar to the previous year at £0.7 million (2017: £0.6 million please); and is primarily made up of amortisation of the three client portfolios identified during the recent acquisitions.

TAX CHARGE AND EARNINGS PER SHARE

The tax charge for the year was £0.4 million (2017: £0.1 million). This is an effective tax rate of 9% which is in line with the tax rate applicable in most of the trading jurisdictions.

It should be noted that last year's reduced charge and effective rate was an anomaly as a result of the refund received on the dividends paid by the Malta subsidiary to head office. Going forward and given Malta's consistent trading levels we expect the effective tax rate to normalise at about 15%.

This impact of the slightly higher tax charge has resulted in earnings per share (EPS) for 2018 of 6.20p compared to 6.69p for 2017. Diluted earnings per share takes into consideration the long term incentive plan 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 5.90p (2017: 6.37p).

CASHFLOWS

Cash and cash equivalents amounted to £17.3 million as at 31 December 2018 (2017: £18.4 million). Broadly, the Group cash generated from trading operations has in the past equated to profits before tax declared in the financial statements. This has not been the case in 2018 for two principal reasons. Firstly, whilst the legal fees which were incurred towards the end of 2017 were accrued in the balance sheet in 2017, they were paid in the early part of 2018. Secondly, given the higher amounts of tax refunds in 2017 the net amount of tax paid was £0.1 million as compared to £0.5 million in 2018. Both these factors contribute to £1.0 million cash outflow from operations resulting in the overall net cash inflow from operating activities of £2.6 million (2017: £4.0 million).

During 2018, the Group has paid consideration in relation to the Harbour acquisition amounting to £0.8 million. This cash outflow on acquisitions is consistent with the prior year where the Group also paid £0.8 million to the previous shareholders of the London & Colonial business.

BALANCE SHEET

In addition to the above, the Company has this year commenced repayments on the bank borrowings taken out in 2016 for the acquisition of London & Colonial. Repayments during 2018 amounted to £1.65 million, leaving a balance of £1.65 million at the 2018 year end.

Taking into consideration these outstanding borrowings net cash and cash equivalents as at 31 December 2018 were £15.6 million (2017: £15.1 million). However, as would be expected for a Group with regulated entities, a significant proportion of this balance forms part of the regulatory and solvency requirements. As at 31 December 2018 the solvency requirement across the Group was £12.2 million. In addition, there are working capital requirements across the Group.

As with most services businesses, the Group had accrued income in the form of work performed for clients but not yet billed which at the 2018 year end amounted to £0.8 million (2017: £0.9 million). These amounts will be billed during the course of 2019.

Deferred income (a liability in the statement of financial position), representing fees billed in advance yet to be credited to the statement of total comprehensive income, has increased this year and stands at £4.0 million as at 31 December 2018 (2017: £3.8 million). This is predominantly due to the acquisition of Harbour and the deferred income associated with those members. However, a small amount of the increase is also as a result of the implementation of IFRS 15 which has resulted in first year annual fees for our pensions business to be deferred in line with the policy in place for subsequent years. Previously these were recognised at the point where the application was received.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Other large balance sheet items relate to trade and other receivables which have increased to £6.3 million as at 31 December 2018 (2017: £5.6 million). It should be noted that within this balance trade receivables at the year end stood at £3.5 million, which is fairly consistent with the balance at the end of 2017 of £3.4 million.

DIVIDEND POLICY

I am pleased to advise that the Board is recommending the payment of a final dividend of 1.3p per share (2017: 1.2p per share). This together with the interim dividend paid of 0.7p in November 2018 (2017: 0.6p) makes a proposed total dividend for the year of 2.0p per share, an increase of 11% on prior year's total dividend of 1.8p.

Subject to approval at the Company's Annual General Meeting, the final dividend will be paid on 26 June 2019 to shareholders on the register at the close of business on 31 May 2019. The ordinary shares will be marked ex-dividend on 30 May 2019.

OPERATIONAL OVERVIEW

PENSIONS

The face of our pension businesses changed after the 2017 Spring Budget, and 2018 has been about ensuring that we are delivering a quality service and product so as to maintain and build on our customer base.

There remain a number of uncertainties in the SIPP market which are making decisions for intermediaries more complicated when it comes to advising clients. This in turn has potential implications on future business levels.

Total revenue across our pensions businesses amounted to £11.5 million (2017: £10.2 million) and accounted for 54% of total Group revenue (2017: 47%).

Malta continues to be the largest of our three jurisdictions with pension turnover of £7.4 million (2017: £6.1 million) having had an additional revenue contribution of £1.0 million from the Harbour acquisition. Within the Harbour revenue, is an amount of £0.3 million in relation to a one-off adjustment as a result of bringing their revenue recognition policy in line with STM's.

Gibraltar pensions, predominantly made of QROPS, generated £2.6 million (2017: £2.6 million) of turnover, and finally the UK business, which administers our SIPPs, delivered £1.6 million (2017: £1.7 million).

Importantly the recurring revenue for the pensions operating segment amounted to £10.6 million (2017: £9.6 million) which represents 92% (2017: 95%) of total pension revenue, giving a highly visible and predictable future revenue stream. It should be noted that the reduction as a percentage measure is partly due to the one-off adjustment on Harbour. Eliminating this adjustment, recurring revenues this year would have been 94% of total pensions revenue and therefore consistent with last year's percentage.

LIFE ASSURANCE

The Group currently has two life assurance businesses based in Gibraltar; this was as a result of the 2016 acquisition of London & Colonial.

As part of the Group's assessment on the potential risks over the UK leaving the European Union, a decision was made during 2018 to re-domicile the STM Life assurance business to Malta in order to allow it to continue servicing the European market post-Brexit. This is currently a well-progressed initiative which when completed will leave London & Colonial Assurance to remain UK facing as part of its future growth strategy.

The 2018 combined revenue figure is £4.7 million compared to £5.9 million for 2017. Both years included releases from technical reserves of £0.6 million and £1.3 million respectively. The remaining balance on the technical reserve, reflected as a liability on the balance sheet is £0.9 million.

The underlying revenue (net of these releases) is therefore £4.1 million in the year ended 31 December 2018 and £4.6 million in the year ended 31 December 2017. The reason for the decrease in the current year has been as a result of lower short term annuities being sold. The total revenue from these policies in 2018 has been £0.2 million compared to £0.7 million in 2017.

Given the above recurring revenues amounted to £3.9 million which is consistent with the prior year's figure. This again provides a steady and highly predictable annuity income stream.

CORPORATE AND TRUSTEE SERVICES

Turnover from the Corporate and Trustee Services (CTS) division for the year was £4.2 million (2017: £4.3 million) thus accounting for 20% of the Group's total turnover (2017: 20%). The revenue is spread across the Gibraltar and Jersey businesses, with the Jersey business contributing 62% (2017: 57%). As advised in our mid-year results, Jersey has outperformed expectation this year, however, this is as a result of one-off transactional work carried out to close structures no longer needed by our customers. This accounted for £0.3 million of revenue which is not expected to continue.

Recurring revenue for the CTS operating segment is £1.5 million (2017: £1.7 million) and thus 35% of the total CTS revenues (2017: 38%).

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

OTHER TRADING DIVISIONS

Trading in other divisions, which are mainly insurance management and the Spanish office, was broadly in line with management expectations. Revenue generated for 2018 amounted to £1.0 million (2017: £1.2 million).

The Group has made plans to exit the insurance management business during the early part of 2019, this follows the strategy of withdrawing from non-core activities. The impact of this on profitability is not expected to be material.

OUTLOOK

There is no doubt that 2018 has been a year that has been about a concentration of resource in continuing to build our governance structure both in terms of staffing, as well as embedding our risk management framework. Whilst there are costs attached to this, it allows us to be well placed going into 2019 to build our business on a solid and reliable infrastructure.

Life and pensions business will continue to be our core focus. With a foot in both the UK and expatriate market we are uniquely positioned to roll out complementary products across the two sectors. There will be an emphasis on building our UK businesses with the Carey pension acquisition completed in 2019. The acquisition enables an additional suite of bespoke SIPP products to be offered by STM to its UK intermediaries.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Furthermore, the entry of STM into the workplace pensions market creates an opportunity to offer pension products across a wider market, and with consolidation in the sector already starting to become prevalent, it creates the ability to accelerate growth by accumulating master trusts that are not applying for authorisation by The Pension Regulator.

2019 will see the full integration of the Carey business with our UK SIPP businesses that will give some substantial efficiency savings in the short and medium term. This integration will dovetail with the drive towards a single IT policy administration system Group wide for all personal pension and life businesses that will allow for further improvements in our operating margins.

In addition, the Company will continue to actively seek out new acquisition opportunities. Focus on such acquisitions will be in relation to UK workplace master trusts, QROPS legacy books of business in Malta or Gibraltar, and UK based SIPP operators where the opportunity arises.

The above three areas in relation to new products, efficiencies and acquisitions underpin an ambitious three year strategy of growth both in terms of revenue as well as profitability, and I look forward to keeping the relevant stakeholders informed of our progress.

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.

Alan Kentish

Chief Executive Officer
25 March 2019

The Directors of STM Group Plc present their Report for the year to 31 December 2018 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 14 May 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

GOING CONCERN

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 twelve months from the date of signing these financial statements.

RESULT AND DIVIDENDS

The profit for the year of £3,683,000 (31 December 2017: £3,974,000) has been transferred to reserves.

In respect of the year ended 31 December 2018 an interim dividend of 0.7p per share was paid in November 2018 and the Directors recommend that a final dividend of 1.3p per share be paid in June 2019.

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 (Resigned 23 May 2018)

Therese Gemma Neish

Malcolm Berryman

Robin Ellison

Graham Kettleborough (Appointed 10 August 2018)

Duncan Crocker (Appointed 3 September 2018)

Pete Marr (Appointed 30 January 2019)

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.

As Graham Kettleborough, Duncan Crocker and Pete Marr have been appointed as Directors since the last Annual General Meeting, resolutions to confirm their appointment will be tabled at the Annual General Meeting.

In accordance with the Articles of Association, Malcolm Berryman retires as a Director of the Company at the Annual General Meeting and, being eligible, offers himself for re-election.

POLITICAL AND CHARITABLE DONATIONS

The Group's charitable donations for the period amounted to £7,873 (31 December 2017: £8,824). 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).

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 12 March 2019 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 12 March 2019

	%
Miton Group	18.03
Septer Limited	11.53
Clifton Participations Inc and Alan Kentish	11.31
Pie Fund Management Limited	6.89
River and Mercantile Asset Management LLP	5.64
Kestrel Opportunities	3.72

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 14 May 2019 is set out on page 61.

By order of the Board

Elizabeth A Plummer

Elizabeth A Plummer

Company Secretary

18 Athol Street
Douglas
Isle of Man IM1 1JA

25 March 2019

BOARD OF DIRECTORS

DUNCAN CROCKER NON-EXECUTIVE CHAIRMAN

Duncan has spent his entire working career in the UK financial services industry, the last 20 years of which being spent reporting in at group board level in a FTSE 100 group. He has extensive experience across a broad range of customer and distribution sectors and has led various legal entities with direct P&L accountability. Duncan has extensive governance, commercial and business transformation experience and believes deeply in an engaged and accountable leadership style.

He left full-time executive employment in 2014, following 37 years served across various leadership roles at Legal and General Group plc (L&G). Duncan was latterly managing director of L&G's UK intermediated housing/mortgage sector business, having previously headed up L&G's UK Intermediary and banking distribution divisions.

In his current non-executive career he has provided guidance and advisory as an independent Non-Executive Director with Zurich Intermediary Group Limited (part of Zurich Insurance Group Ltd), and one of the largest UK independent mortgage brokers, London & Country Mortgages Limited. Duncan also acts as an adviser to a number of fledgling digital fin-tech start-up businesses both pre and post revenue.

ALAN ROY KENTISH, ACA ACII AIRM CHIEF EXECUTIVE OFFICER

Alan Kentish trained with a Big 4 accountancy firm in the UK and specialised in financial services audits, qualifying as a Chartered Accountant over 25 years ago. He moved to Gibraltar in 1993, and joined the BDO firm as the founder of their insurance management division. Alan was at the forefront of developing the hugely successful Gibraltar insurance sector, and qualified as an Associate of the Chartered Insurance Institute as well as becoming a qualified Associate of the Institute of Risk Management along the way. The BDO member firm evolved into STM as part of the AIM listing in 2007, with Alan holding the office of Chief Financial Officer at that time, as well as navigating STM through the difficult financial crisis of 2008 and 2009. Alan became the director of business development in 2012 as STM moved into its growth phase, particularly in relation to its pension product offering, and took over as CEO in April 2016 as part of continuing to build the infrastructure of the business. Alan has served on numerous company boards, both regulated and non-regulated, but primarily in the financial services and insurance sector, including a main subsidiary board of a FTSE 100 company.

THERESE GEMMA NEISH, BA (HONS) FCCA CHIEF FINANCIAL OFFICER

Therese joined the Board in January 2014, as Chief Financial Officer having been promoted internally from Group Financial Controller, a role she carried out for five years. She joined the STM's finance division shortly after the Group listed on AIM 2007 and was instrumental in creating an efficient, collaborative and robust finance function as the Group expanded into new jurisdictions. Prior to that Therese worked for STM's insurance management division for five years where she managed and sat on the board of various Gibraltar regulated insurance companies. Having been part of STM's history for the last 15 years gives Therese key knowledge of the business and makes her well-suited to assist in its continuing journey. Prior to her career with STM, Therese trained with KPMG for five years where she qualified as a Chartered Certified Accountant in 2003.

PETE MARR, MCMII CHIEF OPERATING OFFICER

Pete has over 20 years experience in the financial services sector. He is a highly experienced and versatile Chief Operating Officer who delivers profitable business growth with clients, colleagues and partners through strong leadership, innovation and a relentless customer focus. Pete most recently worked as COO of Police Mutual, one of the UK's largest affinity mutual societies providing insurance, mortgages and savings products to its members, overseeing a staff in excess of 600 people. Prior to that Pete was Operations Director at Capita Insurance Services, where he was a key liaison for strategic partners, government and regulatory bodies, and outsourced service providers. Pete has a proven track record in strategy development, cultural and transformational change and customer service across a variety of sectors, delivering service and process improvements and operational efficiencies to organisations that he has previously worked for.

MALCOLM BERRYMAN NON-EXECUTIVE DIRECTOR
CHAIRMAN OF AUDIT & RISK COMMITTEE AND REMUNERATION COMMITTEE

Malcolm Berryman is an experienced Non-Executive Director, strategic consultant, and actuary by profession. He has been a Non-Executive Director for over 10 years with four different financial services companies serving as Chair of both Risk and Remuneration Committees in those companies. Most recently he has served on the Board of H&T Group (2008-2018), an AIM listed company. Prior to his non-executive roles, he was Chief Executive of Liverpool Victoria (1999-2005) and Crown Financial Management (1993-1995). He was the Appointed Actuary at Cornhill Insurance and Crown. In his consultancy business, he has advised companies on acquisitions, strategy, governance and business restructuring. He is a Fellow of the Institute of Actuaries and has a First Class Honours Degree from the University of Dundee.

GRAHAM KETTLEBOROUGH NON-EXECUTIVE DIRECTOR

Graham is a highly experienced financial services professional and is well known in the life and pensions sector, having been Chief Executive Officer of Chesnara Plc, a London Stock Exchange listed business, during the period from 2004 to 2014. Graham was instrumental in building the company into a respected sector performer through life and pensions consolidation in the UK and acquisitions in Sweden and the Netherlands. The group delivered significant shareholder value with significant growth in assets, share price appreciation and an unbroken increasing dividend record. He has strong experience in corporate governance, has completed a number of successful UK and international acquisitions (including fund raising through loan finance and equity issuance) and undertaken significant business transformation and integration activity.

ROBIN ELLISON NON-EXECUTIVE DIRECTOR

Robin Ellison is a practising solicitor and academic. He is a consultant with Pinsent Masons, the international law firm where he specialises in the development of pensions, investments and related financial services products for insurers and other providers, and in European and international pensions, pensions trustee law and pensions in matrimonial matters. He acts for a number of foreign governments and government agencies. He was adviser to the House of Commons Select Committee on BHS Pensions in 2016.

He is also a director of the boards of several companies, including as Chairman of Pendragon Professional Information, publisher of Perspective, the electronic regulatory and legal publisher to the pensions industry, and is trustee of several pension funds (including those of the Cambridge Colleges and Cayman Government Pension Scheme), both as independent trustee and as Chairman. He also practices as a commercial mediator.

He was a founder of the Association of Pensions Lawyers, being awarded its Wallace Prize in 1995 and in 1997 he was elected the first solicitor Honorary Fellow of the Pensions Management Institute. He was awarded the Industry Achievement award by Portfolio Institutional in 2013 and Personality of the Year by European Pensions in 2017.

He is the author of numerous books on pensions, is Visiting Professor of Pensions Law and Economics at Cass Business School, City, University of London, and a frequent broadcaster on radio and television on pensions matters. He is a former Chairman of the Pensions and Lifetime Savings Association (formerly the National Association of Pension Funds).

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 Standards 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	**2018**	**2017**	Notes
Executive Directors			
Alan Kentish	£205,000	£200,000	a,b
Therese Neish	£160,925	£157,000	a,b
Non-Executive Directors			
Michael Riddell	£35,000	£50,000	b,c
Duncan Crocker	£20,000	—	b,d
Robin Ellison	£54,837	£36,000	b
Malcolm Berryman	£51,000	£36,000	b
Graham Kettleborough	£14,000	—	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 derived a potential bonus payout for the year ended 31 December 2017. Given the exceptional circumstance arising at the end of the financial year it was 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. This bonus remained outstanding as at 31 December 2018. No bonus is due for the year ended 31 December 2018 as the minimum target has not been 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 who resigned on 23 May 2018.

d. Duncan Crocker was appointed on 3 September 2018.

e. Graham Kettleborough was appointed on 10 August 2018.

CORPORATE GOVERNANCE

The Board is committed to achieving high standards of corporate governance, integrity and business ethics. 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.

STM has formally adopted the Quoted Companies Alliance Code for Small and Mid-sized Quoted Companies (QCA). The statements and explanations below articulate how the Group abide by the ten Principles of the QCA Code, and identify any matters of note in relation to governance. The governance framework is a living process and will continue to evolve as the business matures and expands.

PRINCIPLE 1: Establish a strategy and business model which promote long term value for shareholders

STM strives to be the financial services provider of choice for both the UK and the UK expatriate market in relation to financial services products, specifically pension administration and associated life assurance solutions. Financial intermediaries that advise this market will recognise that STM offers an unrivalled service level to both them and their customers, putting the customers at the forefront of its business proposition.

It is clear that STM Group's underlying customers base is primarily the UK expatriate market and, to a lesser degree, foreign nationals that have worked in the UK. Our market segment has shifted from the high net worth individual Trust and Company sector to the mass affluent sector for pensions and life business over the last five years or so. However, currently our key driver is the UK expatriate market, and this will remain the mainstay of our business for years to come, having focussed most of our business development efforts in building these distribution channels. In addition to the above, the Group have stated their intention to also provide products to UK residents, so as to reduce any concentration risk from operating in just one sector.

Expanding on the above, STM's business model is to:

- continue to promote its pensions administration and associated life assurance products to international mobile individuals with a focus on those that have previously worked in the UK;
- support its customers and intermediaries. To that end, STM will operate its pension administration services from a number of key jurisdictions so as to meet the customers' needs;
- strive to operate at the highest of service levels to both its customers and financial intermediaries in all jurisdictions;
- always operate in a compliant manner with local laws and regulations;
- rely on its network of financial intermediaries for the introduction of its business, and will continue to do so in the future. It is not proposed that STM will offer a retail product direct to the public, nor will it offer investment, financial or tax advice;
- differentiate itself from its UK competitors by being able to understand the more complex requirements of the UK expatriate market;
- differentiate itself from its international competitors through service levels, and a more comprehensive product/jurisdictional offering;
- identify and promote products, through its intermediary partners, to UK residents.

The Board has adopted a three year strategy which focuses on a number of component parts. These include:

- to continue to focus our business in the life and pensions sector;
- an intention to increase the introducing intermediary network;
- a diversification of the pensions and life product range so as not to be so reliant on a limited range of products;
- an intention to be seen as a more UK focussed business by increasing our UK regulated products to offer to UK residents as well as the expat market;
- a drive to improve margins and the customers' journey through efficiency and IT systems;
- seeking opportunistic acquisition targets for both QROPS integration, as well as expansion in niche areas of the Pension and Life markets;
- a strategy of proactively engaging with key stakeholders, including shareholders and regulators.

The above, embedded within a three year business plan, demonstrates an intention to deliver long term growth to the shareholders in a disciplined and clear manner, whilst not subjecting the Company to unnecessary risk.

PRINCIPLE 2: Seek to understand and meet shareholders' needs and expectations

The Group is committed to communicating openly and transparently with its shareholders to ensure that its strategy and performance are clearly understood. We communicate with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates and the Annual General Meeting, as well as face-to-face meetings with the larger shareholders. Further information on this and corporate news is also available on our website: wwww.stmgroupplc.com.

CORPORATE GOVERNANCE

In addition to the above, it is our duty as a Board to develop a good understanding of the needs and expectations of all elements of the shareholder base. We do this by regular meetings with our institutional and larger shareholders at the time of presenting our interim and final results in the financial year, as well as on an ad hoc basis. Our smaller shareholders have the ability to communicate directly with the Company via our contact page on the website. In addition, the Annual General Meeting allows attendance of any shareholder, allowing further access to the Board as a whole.

The responsibility for investor relations on a day-to-day basis rests with the CEO, supported by the CFO, although it is made clear that the Chairman, as well as any other Non-Executive Directors are happy to meet institutional shareholders at their request.

The Board considers feedback by shareholders a very important part of understanding how this key set of stakeholders view the Board's performance. This is received after each presentational road show to the shareholders.

PRINCIPLE 3: Take into account wider stakeholder and social responsibilities and their implications for long term success

The Board recognises that long term success of the Group relies upon good relations with a range of different internal and external stakeholders, not just our shareholders. The STM Board identifies these various stakeholders and attempts to understand their needs, interests and expectations. These needs, interests and expectations are embedded into the Company's business model and strategy, and most importantly within our Code of Conduct which can be found on our website. This sets out how we as a group, and as individuals throughout the business are expected to conduct ourselves when dealing with our stakeholders. It also requires our interaction with stakeholders to be fair and transparent, putting the customer at the heart of our decision making processes.

Our main internal stakeholders are our colleagues. Our ability to fulfil customer services efficiently and proactively is dependent on ensuring we have a motivated and talented workforce. This can only be achieved by having a comprehensive two-way engagement between colleagues and management, to foster a culture of trust and good work ethics. The Group achieves this through regular engagement of the various operating divisions, a supportive training schedule, a proactive encouragement to engage in professional qualifications, as well as an annual appraisal process.

Our main external stakeholders are our customers, intermediaries, regulators and suppliers, such as our banking partners. It is our duty to operate with all these parties in a correct and proactive manner ensuring that we meet prescribed timelines for submissions of information, as well as ensuring that any communications are comprehensive. When dealing with certain types of communication and services, we intend to operate to pre-agreed service levels so that each stakeholder is able to understand what can be expected of STM.

In relation to our customers, the interests of this key stakeholder are at the forefront of our minds, ensuring that we treat our customers fairly. We ensure that we have suitable mechanisms in place so that our customers can tell us if they are not happy, and any such case would follow our normal complaint procedures.

STM has an open-door policy towards all our stakeholders and we encourage feedback, both positive and negative, so that we can improve how we do things.

PRINCIPLE 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board is ultimately responsible for the Group's risk management framework, requiring it to identify and address all relevant risks in order to execute and deliver on its strategy. Setting strategy includes determining the extent of exposure to the identified risks that the Company is able to bear and willing to take.

During the past year the Group has introduced a formal risk management framework which has been embraced in the various jurisdictions in which the Group operates. This risk management framework and appetite is embedded in the Group (and subsidiaries') management and governance processes and is overseen by the Board. In addition the Board has adopted a formal Risk Appetite Statement and other relevant policies. These have been cascaded down and adapted, as appropriate, and adopted by the various operating subsidiaries. Each subsidiary Board maintains its own risk register, and puts in actions to effectively mitigate that risk, where applicable.

The risk management function oversees the implementation of any new policies throughout the Group. The compliance function 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 Directors of STM Group Plc confirm that they carry out an assessment of the principal risks facing the Group, including those that could threaten its business model, performance and solvency. The Audit & Risk Committee meets quarterly at least and formally report to the Board on the various risks across the Group. The review of risks is embedded within the agenda, and is thus continually reviewed as part of an ongoing process.

Further assurance that our risk management processes are embedded throughout the business is obtained via our internal audit team.

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	Change from prior year
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	No change
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	No change
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	No change
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 is committed to implementing a succession plan • The Group provides appropriate training for staff and management • The Group promotes a favourable work environment to retain and attract staff	No change
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.	• 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	No change
GEOPOLITICAL RISKS	The Group could be adversely affected by changes in existing legislation or political factors, such as Brexit.	• The Group carried out an assessment of how Brexit could affect the business and concluded that the most significant impact would be on the life assurance operating segment given that as a Gibraltar assurance company it has passporting rights into the European Union. As such a decision was taken to re-domicile this to Malta to allow it to continue servicing the EU market. Whilst this process is well under way there remains the risk that it will not be finalised in time and may have an impact on the Group being able to incept new European policies.	New risk
NON-PERFORMING INVESTMENTS	The Group recognises that the UK SIPP industry is becoming more litigious over non-performing assets and could therefore be adversely affected by this.	• The Group does not provide financial or investment advice to its customers therefore is not responsible for the performance of the investments • Adherence to regulatory requirements and follow appropriate due diligence procedures expected of a trustee for onboarding intermediaries and customers • Has professional indemnity insurance in place	New risk
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	No change

CORPORATE GOVERNANCE

PRINCIPLE 5: Maintain the Board as a well-functioning, balanced team led by the Chair

The Board is responsible to shareholders for the proper management and governance of the Group and has certain matters specifically reserved to it for decisions on such topics. These include strategic planning, business acquisitions and disposals, authorisation of major capital expenditure and material contractual arrangements, setting policies for the conduct of business and approval of budgets and financial statements.

The roles of Chairman and Chief Executive are distinct, as set out in writing and agreed by the Board. The Chairman is responsible for the effectiveness of the Board, directing strategy and ensuring communication with shareholders. He also takes overall responsibility for the conduct of the Board, and adherence to its stated policies, including the governance framework. The Chief Executive is responsible for overseeing the delivery of the strategy and the day-to-day management of the Group by the Senior Executive team. The Board is committed to continually developing the corporate governance and management structures of the Group to ensure they continue to meet the changing needs of the business. The Non-Executive Directors are considered by the Board to be independent of management and free from any relationship which might materially interfere with the exercise of independent judgement. Further details on the Board can be found on pages 16 and 17.

The Non-Executive Directors provide a strong independent element to the Board and bring experience at a senior level of business operations and strategy. The Company Secretary is responsible for ensuring that Board procedures and applicable rules and regulations are observed.

PRINCIPLE 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The current Board composition and profiles of the individual Board members can be found on pages 16 and 17. All members of the Board have relevant experience which they bring to the business.

The STM Board have, in their opinion, an appropriate balance of sector, financial and public market skills and experience, as well as an appropriate balance of personal qualities and capabilities to successfully execute the Group's strategy. The Board fully supports and funds any training, formally or otherwise, that is required by any individual Board member so as to ensure that their knowledge and experience remains relevant and effective.

PRINCIPLE 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

A formal external evaluation of the Board will be conducted every three years commencing in 2019, with an internal process being in place for the other years. STM are developing a process to evaluate the various members of the Board and of the Board effectiveness as a unit. This will encompass the completion of a questionnaire about the effectiveness of the Board, and a self-assessment of their own contributions which will then be returned to the Chairman. It is envisaged that this will then be used by the Chairman for one-to-one discussions, followed by a collective debrief.

To date, Board evaluation has been carried out internally, and in an informal manner.

PRINCIPLE 8: Promote a corporate culture that is based on ethical values and behaviours

The Board must promote a corporate culture that is based on sound ethical values, standards and behaviours. This culture is visible in the Board's actions and decisions, as well as those of the Executives and senior management team. These corporate values guide the objectives and strategy of the business. These corporate values form the backbone of our Code of Conduct policy for the business. Our long term growth expectations are underpinned by the principles within this Code of Conduct.

The Group is promoting a culture of a good customer experience and that a fair customer outcome is at the heart of the decision making process, aligned to a positive and proactive relationship with our stakeholders.

This culture has been communicated to all members of the business and is reinforced by the training program which all staff participate in. This starts with the Code of Conduct forming part of any new member of staff's induction program, and the application of the Code of Conduct is considered as part of all STM employees' annual appraisal process.

It is important for the Board to ensure that any acquisitions, both past and future, are instilled with the same corporate values and culture that STM aspires to. In this regard any new company joining the Group will receive an induction to STM and its Code of Conduct and Principles which would be required to be adopted by all members of staff.

PRINCIPLE 9: Maintain governance structures and processes that are fit for purpose and support good decision making by the Board

The Board members have a collective responsibility and legal obligation to promote the interests of the Group, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the Chairman of the Board.

The Board comprises three Executive and four independent Non-Executive Directors (including the Chairman) and the Board Committees are comprised only of Non-Executive Directors. The independence of Directors will be assessed periodically as part of the external evaluation process of the Board and its individual members. All Non-Executive Directors have been appointed from outside of the STM Group, and have no beneficial interest in the Group, and are thus deemed truly independent. In addition, all Non-Executive Directors are professionals in their respective fields and may have their own institutional ethics and guidelines to abide by.

One Executive Director is female; the other two Executive Directors are male, as are all the Non-Executive Directors.

The Board meets at least six 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 agenda followed at all Board meetings which ensures discussions and decisions to be made on all strategic, financial and operational matters affecting the business.

The recruitment of a Chief Operating Officer has given more depth to the Board and is part of building a more robust structure, and it is also recognised that this will give a roadmap for succession planning within the Group.

The Board has established an Audit & Risk Committee and a Remuneration Committee, both with formally delegated duties and responsibilities. The Directors do not consider that, given the size of the Board, it is necessary at this stage to have a Nomination Committee. The Audit & Risk Committee comprises Malcolm Berryman, as the Chairman, Robin Ellison and Graham Kettleborough. The Remuneration Committee comprises all the Non-Executive Directors, with Malcolm Berryman also as Chairman. These Committees will meet prior to the main Board meetings so that any recommendations flowing out from them can be reported to the Board, where appropriate.

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 four 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. 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 Remuneration 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;

CORPORATE GOVERNANCE

REMUNERATION COMMITTEE *(continued)*

- 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.

A table of the attendance record for the year ended 31 December 2018 is shown below.

Director	Board Meetings Attended	Audit & Risk Committee Attended	Remuneration Committee Attended
Alan Kentish	7/8	—	—
Therese Neish	8/8	—	—
Michael Riddell [1]	4/4	3/3	2/3
Malcolm Berryman	8/8	5/5	4/4
Robin Ellison	7/8	4/5	4/4
Graham Kettleborough [2]	4/4	2/2	—
Duncan Crocker [3]	3/4	—	—

1. Michael Riddell resigned on 23 May 2018
2. Graham Kettleborough was appointed on 10 August 2018
3. Duncan Crocker was appointed on 3 September 2018

PRINCIPLE 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

A healthy dialogue between the STM Board and all of its stakeholders, including shareholders, is paramount in enabling all interested parties to come to informed decisions about the business. The Board will attempt to ensure that this happens at all times.

In particular it is imperative that appropriate communication and reporting structures exist between the Board and all constituent parts of the shareholder base. How the Board achieves this is addressed above. Announcements relating to Annual Reports and Notices of the Annual General Meetings can be found in the investor section of our website.

Furthermore, the Board will always publish the results of any voting decisions by the shareholders; this will primarily be at the Annual General Meeting. Where there is significant divergence of voting opinion then the Board commits to analysing such divergence to understand the various opinions of the shareholders.

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 of STM Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 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 which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and Parent Company statement of financial position;
- the consolidated and Parent Company statement of changes in equity;
- the consolidated statement of cash flow; and
- the related Notes 1 to 28.

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 Financial Reporting Council's (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 • Valuation of Harbour client portfolio • Recoverability of trade debtors & accrued income Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with .
MATERIALITY	The materiality that we used for the Group financial statements was £390,000 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 88% of the Group's revenue and 90% of pre-tax profits and losses.
SIGNIFICANT CHANGES IN OUR APPROACH	There has not been any significant changes to our audit approach from our audit for the year ended 31 December 2017. We have identified an additional key audit matter in relation to the valuation of the Harbour client portfolio. The acquisition of Harbour is considered a significant transaction during the year ended 31 December 2018.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STM GROUP PLC

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 detailed in Note 5 to the financial statements totalled £21.4 million for the year ended 2018 (2017 year end: £21.5 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: Pensions, Life Assurance, Corporate Trustee Services and Other Services.

The implementation of IFRS 15 required management to review the Group's revenue recognition policy for each reportable segment assessing the services that have been promised to the customer and identifying as a performance obligation:

– a service that is distinct; or

– a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer.

Following the analysis of all the various revenue streams as outlined above, management has concluded that the main change to revenue recognition driven by the introduction of IFRS 15 is in respect of the first year fees on the pension business.

Whilst the timing of when revenue is initially recognised remains acceptable under IFRS 15, in that a performance obligation is satisfied at the point where the application is received, management has determined that part of the fees relates to a second performance obligation. These are:

- Performance obligation 1 – Administrative service
- Performance obligation 2 – Trustee service

The timing of satisfaction of performance obligations and recognition of revenue over time or at a point in time is deemed an area of judgement in Note 2d, 'Use of judgements and estimates'.

Management has changed the revenue recognition policy to be consistent with that adopted for second year (and subsequent) pension fees as both the first year and subsequent years have an upfront element and an ongoing service through the remainder of the period of service. As a result, first year revenue will be recognised 50% at the point of invoicing to reflect the performance obligation at that point and 50% throughout the year to reflect the provision of trusteeship.

Our key audit matter was pinpointed to the judgements made by management in determining the performance obligations and determining when these have been satisfied.

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

We have reviewed management's and challenged the following key assumptions and judgements:

– management's determination of performance obligations for all revenue streams;

– management's assessment of when the performance obligations are satisfied;

– management's allocation of the transaction price to the performance obligations; and

– assumptions made in relation to the comparability of client contracts across jurisdictions.

We have compared samples of the client contracts and the standard terms and conditions from the subsidiaries impacted in the principal trading jurisdictions and noted that there are not significant differences between these.

We have reviewed the determination of performance obligations by reviewing the client contracts and the criteria required to satisfy the performance obligations.

Pensions contracts are the only ones deemed to have two distinct performance obligations as part of the annual management fee income. We have tested the underlying data collated to determine the allocation of the transaction price to each performance obligation, this includes the underlying workings and data used as part of the calculation, including average number of members, and new members each month.

In addition we have agreed the analysis to supporting evidence to ensure its accuracy. We have challenged assumptions made in relation to the time spent by administrators satisfying the performance obligations by reviewing service logs to assess the number of occurrences of each different service applied throughout the year.

KEY OBSERVATIONS

Based on our audit procedures, we have concluded that the determination of the performance obligations and the timing of when revenue is recognised appears appropriate.

INSURANCE TECHNICAL RESERVE

KEY AUDIT MATTER DESCRIPTION

The Group's insurance technical reserve as disclosed in Note 20 to the financial statements totalled £0.9 million for the year ended 2018 (2017 year end: £1.5 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 2d, 'Use of judgements and estimates'.

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 challenge 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.

VALUATION OF HARBOUR CLIENT PORTFOLIO

KEY AUDIT MATTER DESCRIPTION

As disclosed in Note 6 to the financial statements, Harbour Pensions Ltd was purchased by STM Malta Ltd on 20 February 2018 for total consideration of £950k. The purchase was contingent on the Harbour business being integrated into STM Malta Ltd within 6 months. IFRS 3 requires that, as of the acquisition date, STM should recognise, separately from goodwill, the identifiable assets acquired and the liabilities assumed. There is significant subjectivity in the determination of the fair value of the client portfolio asset, if any, that should be recognised based on the final valuation approach chosen. The client portfolio has been valued at £920k. As there were not a number of potential buyers there is a risk around the carrying value of the client portfolio.

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

Management has provided us with a paper documenting the rationale for their valuation of the client portfolio intangible asset using a market approach, a cost approach and an income approach.

Following receipt of management's paper, we obtained and reviewed the terms of the purchase agreement to corroborate the consideration payable. The Harbour financial statements were requested to corroborate the value of the net assets on acquisition.

We reviewed the data in relation to recent acquisitions by competitors comparing the revenue and PBT multiples to the Harbour valuation and whether these acquisitions fall in the range of multiples applied by STM in valuing Harbour.

We also considered management's income based approach to measuring the value of the intangible asset and assessed the key assumptions applied.

We assessed whether the purchase constituted a bargain purchase by obtaining an understanding of the conditions of the sale from the vendors perspective and whether there were any other potential purchasers involved.

KEY OBSERVATIONS

Based on our audit procedures, we consider it reasonable for the Harbour portfolio to be valued using the cost approach.

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 £3.5 million and £0.8 million respectively for the year ended 2018 (2017 year end: £3.4 million and £0.9 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 2d, 'Use of judgements and estimates'.

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 focussed 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STM GROUP PLC

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

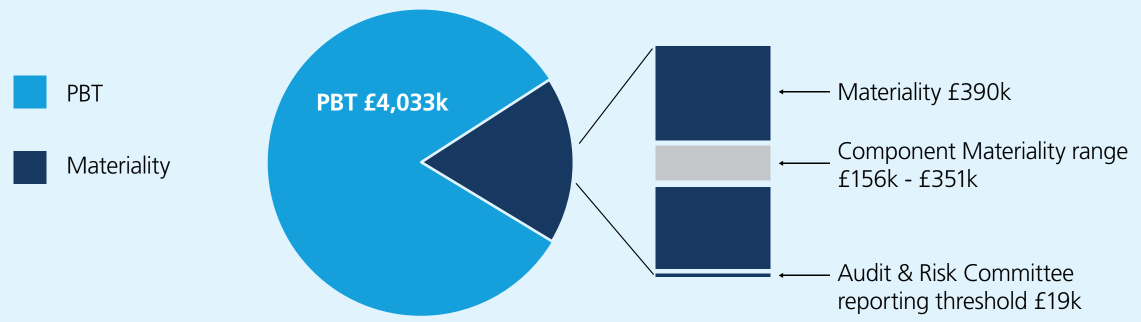
Based on our audit procedures, we observed that the judgements applied were appropriate and recoverability of trade debtors & accrued income appears reasonable.

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	£390,000 (2017: £400,000)	£351,000 (2017: £119,000)
BASIS FOR DETERMINING MATERIALITY	10% of pre-tax profit (based on our initial planning procedures) rounded down to the nearest £10,000. Our planning materiality was reassessed at year end with no changes deemed necessary. The benchmark remains unchanged from our 31 December 2017 audit.	3% net assets capped at 90% of Group materiality. The benchmark has been changed from our 31 December 2017 audit which was 10% of pre-tax profits. The entity is a holding company and we consider net assets as the most appropriate benchmark.
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 1.8% of revenue and 1.2% 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.	The entity is a holding company and we consider net assets as the most appropriate benchmark.



We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £19,000 (2017: £20,000), 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STM GROUP PLC

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 88% of revenues and 90% of profit before tax. The Group audit team approved component materiality levels, which ranged from £156,000 to £351,000 (2017: £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 and Malta components which are the Group's main operating jurisdictions.

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.

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 FRC'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
25 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year from 1 January 2018
to 31 December 2018

	Notes	**Year ended 31 December 2018 £000**	Year ended 31 December 2017 £000
Revenue	7	21,401	21,525
Administrative expenses	9	(16,692)	(16,760)
Profit before other items	10	**4,709**	4,765
OTHER ITEMS			
Finance costs		(249)	(262)
Depreciation and amortisation		(427)	(478)
Profit before taxation		**4,033**	4,025
Taxation	11	(350)	(51)
Profit after taxation		**3,683**	3,974
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		3	7
Total other comprehensive income		3	7
Total comprehensive income for the year		**3,686**	3,981
Earnings per share basic (pence)	19	6.20	6.69
Earnings per share diluted (pence)	19	**5.90**	6.37

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

The Notes on pages 35 to 60 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31 December 2018 £000	31 December 2017 £000
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,096	1,240
Intangible assets	13	18,966	18,066
Total non-current assets		**20,062**	19,306
Current assets			
Investments	14	74	81
Accrued income		787	890
Trade and other receivables	15	6,281	5,607
Cash and cash equivalents	16	17,267	18,363
Total current assets		**24,409**	24,941
Total assets		**44,471**	44,247
EQUITY			
Called up share capital	17	59	59
Share premium account	17	22,372	22,372
Reserves		10,631	8,341
Total equity attributable to equity shareholders		**33,062**	30,772
LIABILITIES			
Current liabilities			
Liabilities for current tax		908	1,073
Trade and other payables	20	10,501	10,750
Total current liabilities		**11,409**	11,823
Non-current liabilities			
Other payables	21	—	1,652
Total non-current liabilities		—	1,652
Total liabilities and equity		**44,471**	44,247

The Notes on pages 35 to 60 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 25 March 2019 and were signed on its behalf by:

AR Kentish
Chief Executive Officer

TG Neish
Chief Financial Officer

25 March 2019

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31 December 2018 £000	31 December 2017 £000
ASSETS			
Non-current assets			
Property, plant and equipment	12	330	369
Intangible assets	13	266	255
Investments	14	21,092	21,092
Total non-current assets		**21,688**	21,716
Current assets			
Trade and other receivables	15	10,387	9,221
Cash and cash equivalents	16	884	873
Total current assets		**11,271**	10,094
Total assets		**32,959**	31,810
EQUITY			
Called up share capital	17	59	59
Share premium account	17	22,372	22,372
Reserves		1,773	(845)
Total equity attributable to equity shareholders		**24,204**	21,586
LIABILITIES			
Current liabilities			
Trade and other payables	20	8,755	8,572
Total current liabilities		**8,755**	8,572
Non-current liabilities			
Other payables	21	—	1,652
Total non-current liabilities		—	1,652
Total liabilities and equity		**32,959**	31,810

The Notes on pages 35 to 60 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 25 March 2019 and were signed on its behalf by:

AR Kentish
Chief Executive Officer

TG Neish
Chief Financial Officer

25 March 2019

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year from 1 January 2018 to 31 December 2018

	Notes	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
OPERATING ACTIVITIES			
Profit for the year before tax		4,033	4,025
ADJUSTMENTS FOR:			
Depreciation and amortisation	12,13	425	478
Taxation paid		(515)	(54)
Foreign exchange loss		—	16
Unrealised loss/(gain) on investments		7	(10)
Share based payments		55	55
Increase in trade and other receivables	15,6	(437)	(414)
Decrease in accrued income		103	324
Decrease in trade and other payables	20,6	(1,068)	(456)
Net cash from operating activities		**2,603**	3,964
INVESTING ACTIVITIES			
Disposal of investments		—	4,950
Acquisition of property, plant and equipment	6,12	(60)	(617)
Consideration paid on acquisitions	6	(800)	(800)
Cash acquired on acquisition	6	302	—
Increase in intangible assets	13	(185)	(84)
Net cash used in investing activities		**(743)**	3,449
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loan	20,21	(1,650)	—
Treasury shares (purchased)/sold		(206)	25
Dividends paid	17	(1,129)	(951)
Net cash from financing activities		**(2,985)**	(926)
(Decrease)/increase in cash and cash equivalents		**(1,125)**	6,487
ANALYSIS OF CASH AND CASH EQUIVALENTS DURING THE YEAR			
(Decrease)/increase in cash and cash equivalents		(1,125)	6,487
Effect of movements in exchange rates on cash and cash equivalents		29	7
Balance at start of year		18,363	11,869
Balance at end of year	16	**17,267**	18,363

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year from 1 January 2018 to 31 December 2018

	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 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 and 1 January 2018	**59**	**22,372**	**8,443**	**(226)**	**35**	**89**	**30,772**
Adjustment on initial application of IFRS 15 (net of tax) (Note 3w(i))	—	—	(116)	—	—	—	(116)
Adjusted balance at 1 January 2018	59	22,372	8,327	(226)	35	89	30,656
TOTAL COMPREHENSIVE INCOME FOR THE YEAR							
Profit for the year	—	—	3,683	—	—	—	3,683
Other comprehensive income							
Foreign currency translation differences	—	—	—	—	3	—	3
Transactions with owners, recorded directly in equity							
Dividend paid	—	—	(1,129)	—	—	—	(1,129)
Share based payments	—	—	—	—	—	55	55
Treasury shares purchased	—	—	—	(206)	—	—	(206)
At 31 December 2018	**59**	**22,372**	**10,881**	**(432)**	**38**	**144**	**33,062**

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 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)
At 31 December 2017	**59**	**22,372**	**(934)**	**89**	**21,586**
Balance at 1 January 2018	59	22,372	(934)	89	**21,586**
Profit for the year	—	—	3,692	—	3,692
Shares issued in year	—	—	—	—	—
Share based payments	—	—	—	55	55
Dividend paid	—	—	(1,129)	—	(1,129)
At 31 December 2018	**59**	**22,372**	**1,629**	**144**	**24,204**

1. REPORTING ENTITY

STM Group Plc (the 'Company') is a company incorporated and domiciled in the Isle of Man and is traded on AIM, a market operated by the London Stock Exchange. 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 2018 comprise the Company and its subsidiaries as per Note 27 (together referred to as the 'Group' and individually as 'Group entities') and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in financial services.

2. BASIS OF PREPARATION

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

a. Statement of compliance

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

b. 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 twelve months from the date of signing these financial statements.

c. Functional and presentational currency

These consolidated financial statements are presented in Pound Sterling (£) which is the Company's functional currency as this is the main currency in which it transacts business.

d. Use of judgements and estimates

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.

(i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the carrying values of the assets and liabilities is included in the following Notes:

Note 3c and 3w(i) - Revenue recognition: timing of the satisfaction of performance obligations and recognition of revenue either over time or at a point in time

(ii) Assumptions and estimates

Assumptions and estimation uncertainties at 31 December 2018 that have a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities in the next financial year are included in the following Notes:

Note 3d - Accrued income: the recognition of income prior to the submission of an invoice based on the estimated amount recoverable for work performed

Note 3v - Recognition and measurement of contingent liabilities: assumptions about the likelihood and magnitude of an outflow of resources

Notes 4, 8 and 20 - Insurance technical reserve: this is calculated based on key actuarial assumptions by the insurance companies' appointed independent actuary and involves estimation uncertainties

Note 13 - Measurement of goodwill: the key assumptions used and other judgemental considerations including the allocation of cash-generating units in determining whether goodwill has been impaired at each annual impairment review

Note 24 - Measurement of Expected Credit Losses (ECL) allowance for trade receivables and contract assets: key assumptions in determining lifetime excepted credit loss rates are historical default rates

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 when the Group transfers control over a good or service to a customer.

Revenue derived from pensions operating segment is split between the establishment fee and the management fee. The establishment fee is recognised in full at the time of processing the application so as to reflect the completion of the performance obligation such as processing their application and setting up the pension trust. The management fees, which are invoiced annually, cover both the provision of trustee services and the administration of the pension funds. The treatment of these fees is to recognise 50% at the time of invoicing and to defer the balance over the year.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

ii. Depreciation (continued)

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

i. Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified at amortised cost, fair value through other comprehensive income (FVOCI) or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Group makes an assessment of the financial assets it holds to best reflect the way in which the business is managed and information is provided to management. The information may include:

- the stated policies and objectives for the group of assets and the operation of those policies in practice;
- how the performance of the assets is evaluated and reported to the Group's management;
- the risks that affect the performance of the business and these assets and how those risks are managed.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

The Group previously classified its financial assets into one of the following categories:

- loans and receivables;
- held for trading at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f. Financial instruments *(continued)*

ii. Classification and subsequent measurement (continued)

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised.
Loans and receivables	Measured at amortised cost using the effective interest method.

Financial liabilities – Classification, subsequent measurement and gains and losses

The Group's financial liabilities are classified at amortised cost. They are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii. Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv. Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

g. 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.

h. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i. Finance leases

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

j. 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.

k. 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. Dividend income in the holding company is recognised when declared by the subsidiaries.

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

l. 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.

m. 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, Harbour Pensions Limited and the BUPA portfolio this has been assessed at ten years.

iv. IT development

IT development relates to internal and external development expenditure incurred in the development of the Group's IT systems. When these costs meet the recognition criteria of IAS 38 'Intangible Assets' they are capitalised and amortised on a straight-line basis over a five year period when a specific IT module comes into use.

n. Impairment

i. Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments and contract assets

The Group measures loss allowances for Expected Credit Losses (ECL) on financial assets measured at amortised cost and contract assets.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n. Impairment *(continued)*

i. Non-derivative financial assets (continued)

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets and are recognised in the statement of comprehensive income.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, the Group may still follow procedures for recovery of financial assets that have been written off.

Policy applicable before 1 January 2018

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 was considered to be impaired if objective evidence indicated that one or more events 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 was 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 were recognised in the statement of comprehensive income.

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

ii. Non-financial assets

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.

o. 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.

p. 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.

q. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

r. 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.

s. Dividend

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

t. 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).

u. 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 (see Note 8).

v. 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. There may be occasions when a potential loss is probable but difficult to quantify therefore a contingent liability would be disclosed.

w. Changes in significant accounting policies

The Group initially applied IFRS 15 Revenue from Contracts with Customers ('IFRS 15') and IFRS 9 Financial Instruments ('IFRS 9') from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

i. IFRS 15

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods and services. 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.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application, i.e. 1 January 2018. Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to the comparative information.

The adoption of IFRS 15 has not altered the total contract value, profitability or timing of cashflows, but there is one key area where the adoption of IFRS 15 has changed the timing of revenue recognition. This is on the treatment of first year fees within the pensions operating segment. Previously these were taken to the statement of comprehensive income at the point of invoicing to reflect the time effort incurred in accepting the new member and processing their application. Under IFRS 15 an element of those are now deferred throughout the year in line with the revenue recognition policy for management fees charged as from the second year (see Note 3c).

A proportion equating to 50% of the pensions management fees is deferred (now for both first and subsequent years) which is in line with the accounting policy which has been in place for all non-first year pension fees since the Group commenced trading in this operating segment. The proportion requiring deferral has been determined based on analysis of historical information which determines the point at which the performance obligation has been met.

First year fees for the pensions operating segment for 2018 accounted for £501,000 of the total revenues and therefore the amount now deferred is £113,000. However, as we have adopted this cumulatively, the amount brought forward from 2017 is £135,000 and therefore the impact on the 2018 profit before tax has been £22,000.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

w. Changes in significant accounting policies *(continued)*

i. IFRS 15 (continued)

IFRS 15 did not have a significant impact on the revenue recognition policies of the Group's other operating segments as per Note 5.

The following table summarises the impact, net of tax, of the transition to IFRS 15 on retained earnings at 1 January 2018.

RETAINED EARNINGS	Impact of adopting IFRS 15 at 1 January 2018 £000
Deferral of the trustee services fee	135
Related tax	(19)
Impact at 1 January 2018	**116**

The following tables summarise the impacts of adopting IFRS 15 on the Group's statement of financial position as at 31 December 2018 and its statement of profit and loss and OCI for the year then ended for each of the line items affected. There was no impact on the Group's statement of cash flows for the year ended 31 December 2018.

Impact on the consolidated statement of financial position.

31 DECEMBER 2018	As reported £000	Adjustments £000	Amounts without adoption of IFRS 15 £000
Assets			
Total Assets	44,471	—	**44,471**
Equity			
Retained earnings	10,631	99	10,730
Others	22,431	—	22,431
Total equity	**33,062**	**99**	**33,161**
Liabilities			
Current tax liabilities	908	14	922
Deferred Income	3,997	(113)	3,884
Others	6,505	—	6,505
Total liabilities	11,409	(99)	11,310
Total equity and liabilities	**44,471**	**—**	**44,471**

Impact on the consolidated statement of profit or loss and OCI.

FOR THE YEAR ENDED 31 DECEMBER 2018	As reported £000	Adjustments £000	Amounts without adoption of IFRS 15 £000
Revenue	21,401	(22)	**21,379**
Income tax expense	(350)	5	(345)
Others	(17,368)	—	(17,368)
Profit for the period	3,683	(17)	**3,666**
Total comprehensive income for the period	**3,686**	**(17)**	**3,669**

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

w. Changes in significant accounting policies *(continued)*

ii. IFRS 9

IFRS 9 sets out 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 ('IAS 39').

In the current year, the Group has applied IFRS 9 and the related consequential amendments to other IFRS Standards that are effective for an annual period that being on or after 1 January 2018.

IFRS 9 introduced new requirements for:

- the classification and measurement of financial assets and financial liabilities, and
- impairment of financial assets.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial assets and financial liabilities.

For an explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9 (see Note 3f).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

FINANCIAL ASSETS	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £000	New carrying amount under IFRS 9 £000
Investments	Designated at FVTPL	Financial assets at FVTPL	81	81
Trade and other receivables	Loans and receivables	Financial assets at amortised cost	5,607	5,607
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost	18,363	18,363
Total financial assets			**24,051**	**24,051**

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at financial assets at amortised cost. The adoption of IFRS 9 has not had a significant impact on the allowance for impairment over these trade receivables.

FINANCIAL LIABILITIES	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £000	New carrying amount under IFRS 9 £000
Trade and other receivables	Financial liabilities at amortised costs	Financial liabilities at amortised costs	10,750	10,750
Other payables	Financial liabilities at amortised costs	Financial liabilities at amortised costs	1,652	1,652
Total financial liabilities			**12,402**	**12,402**

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

w. Changes in significant accounting policies *(continued)*

iii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognised earlier than under IAS 39 (see Note 3m).

The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 does not result in a significant additional allowance for impairment.

iv. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively albeit there is no significant quantitative impact on the consolidated financial statements.

The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

x. New standards and interpretations

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The Group is required to adopt IFRS 16 Leases from 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases and leases of low-value items. Lessor accounting remains similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases.

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 Group will recognise new assets and liabilities for its operating leases of office premises. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

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

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Annual Improvements to IFRS Standards 2015-2017 Cycle - various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.

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.

4. DETERMINATION OF FAIR VALUES *(continued)*

c. Long term business reserve

The long term business reserve included in the Group accounts relate to the insurance companies and is determined by the appointed actuary of those companies. 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: Pensions, Life Assurance, Corporate Trustee Services, 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 2018 £000**	31 December 2017 £000
Pensions	11,555	10,157
Life Assurance	4,669	5,851
Corporate Trustee Services	4,185	4,341
Other Services	992	1,176
Total	**21,401**	21,525

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

	Turnover	
Geographical Segment	**31 December 2018 £000**	31 December 2017 £000
Gibraltar	9,235	10,675
Jersey	2,611	2,492
Malta	7,383	6,180
United Kingdom	1,585	1,666
Other	587	512
Total	**21,401**	21,525

6. ACQUISITION OF SUBSIDIARY

On 20 February 2018, the Group acquired 100% of the ordinary shares and voting interest in Harbour Pensions Limited ('Harbour').

Harbour was a licensed retirement scheme administrator based in Malta incorporating four registered pension schemes with some 1,600 members. The acquisition is highly complementary to STM's existing business and strategy and will contribute to the growth of STM. The acquisition was a straightforward 'bolt-on' to STM's existing Malta business and having now been fully integrated is expected to deliver cost synergies and economies of scale. Following the integration the licence for Harbour has now been handed back to the regulator and thus this company is no longer a regulated entity.

The acquisition has been accounted for using the acquisition method. Transaction costs incurred on the acquisition total £26,968 and have been expensed within administrative expenses in the consolidated statement of comprehensive income.

Consideration for the acquisition is broken down as follows:

	£000
Initial cash payment	800
Contingent consideration	150
Total	**950**

The contingent consideration was payable within the first year following acquisition and was dependent on the member retention rates following acquisition and integration. This was paid in full on 20 February 2019.

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

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Property, plant and equipment	16	—	16
Client portfolio	920	920	—
Deferred tax	56	—	56
Cash at bank	302	—	302
Trade and other receivables	181	—	181
Accruals and deferred income	(441)	—	(441)
Trade and other payables	(84)	—	(84)
Total identifiable net assets at fair value	**950**	**920**	**30**

At acquisition the Group performed an exercise to identify the fair value of intangible assets acquired. As a result of that exercise, a client portfolio asset of £920,000 relating to the pension members was recognised.

From the date of acquisition to the date of full integration to the Group's Malta operations in September 2018, Harbour contributed £713,000 to revenue and £306,000 to profit. From the date of full integration to 31 December 2018, Harbour contributed £304,000 to revenue. It would require undue costs and efforts to accurately calculate Harbour's contribution to profit from the date of integration to 31 December 2018 given it is fully integrated and not possible to split out costs. Therefore, this measure cannot be obtained for disclosure in these financial statements.

If the acquisition had occurred on 1 January 2018, management estimates that consolidated revenue would have been £1,175,000 for 2018 year and consolidated profit would have been £334,000 up to the integration date.

Goodwill arising from the acquisition has been recognised as follows:

	£000
Total acquisition cost	950
Fair value of identifiable net assets	(950)
Goodwill	**—**

7. REVENUE

	31 December 2018 £000	31 December 2017 £000
Revenue from administration of assets	21,401	21,525
Total revenues	**21,401**	21,525

8. LIFE ASSURANCE OPERATING SEGMENT

These consolidated financial statements include the results for STM Life Assurance PCC Plc and London & Colonial Assurance PCC 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 adviser and are segregated from the assets and liabilities of other clients. Therefore the Group considers that it does not control the investment decision nor accept 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 £21,401,000 (2017: £21,525,000) there is an amount of £4,669,000 (2017: £5,851,000) relating to revenues attributable to the life assurance businesses.

9. ADMINISTRATIVE EXPENSES

Included within administrative expenses are personnel costs as follows:

	31 December 2018 £000	31 December 2017 £000
Wages and salaries	8,888	8,522
Social insurance costs	428	389
Pension contributions	170	160
Share based payments	55	55
Total personnel expenses	**9,541**	9,126

Average number of employees

Group	31 December 2018 Number	31 December 2017 Number
Average number of people employed (including Executive Directors)	**199**	201

Company	31 December 2018 Number	31 December 2017 Number
Average number of people employed (including Executive Directors)	**6**	6

10. PROFIT BEFORE OTHER ITEMS

Profit before other items of £4,709,000 (31 December 2017: £4,765,000), was arrived at after charging the following to the income statement:

	31 December 2018 £000	31 December 2017 £000
Directors' remuneration	577	664
Auditors' remuneration for audit	296	244
Auditors' remuneration for non-audit services	227	—
Operating lease rentals	707	830

11. TAXATION

	31 December 2018 £000	31 December 2017 £000
Current tax expense	350	51
Release from prior years	—	—
Total tax expense	**350**	51

Reconciliation of existing tax rate	**31 December 2018 £000**	31 December 2017 £000
Profit for the year	4,033	4,025
Total income tax expense	**350**	51
Profit before tax	4,033	4,025
Income tax using the Company's domestic rate - 0%	—	—
Effect of tax rates in other jurisdictions	350	51
Total tax expense	**350**	51
Effective tax rate (%)	**9%**	1%

12. PROPERTY, PLANT AND EQUIPMENT

Group	Motor Vehicles £000	Office Equipment £000	Leasehold Improvements £000	**Total £000**
Costs				
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**
As at 1 January 2018	15	2,054	641	2,710
Additions at cost	—	76	—	76
As at 31 December 2018	**15**	**2,130**	**641**	**2,786**
Depreciation				
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**
As at 1 January 2018	6	1,160	304	1,470
Charge for the year	2	194	24	220
As at 31 December 2018	**8**	**1,354**	**328**	**1,690**
Net Book Value				
As at 31 December 2017	9	894	337	1,240
As at 31 December 2018	**7**	**776**	**313**	**1,096**

Company	Office Equipment £000	Leasehold Improvements £000	**Total £000**
Costs			
As at 1 January 2017	723	567	1,290
Disposals	—	(567)	(567)
As at 31 December 2017	**723**	**—**	**723**
As at 1 January 2018	723	—	723
Disposals	10	—	10
As at 31 December 2018	**733**	**—**	**733**
Depreciation			
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**
As at 1 January 2018	354	—	354
Charge for the year	49	—	49
As at 31 December 2018	**403**	**—**	**403**
Net Book Value			
As at 31 December 2017	369	—	369
As at 31 December 2018	**330**	**—**	**330**

13. INTANGIBLE ASSETS

Group	Goodwill £000	Client Portfolio £000	Product Development £000	IT Development Costs £000	**Total £000**
Costs					
Balance as at 1 January 2017	17,262	1,000	502	—	18,764
Additions	—	—	84	—	84
Reclassification	(422)	422	—	—	—
Adjustment	(350)	—	—	—	(350)
Balance at 31 December 2017	**16,490**	**1,422**	**586**	**—**	**18,498**
Balance as at 1 January 2018	16,490	1,422	586	—	18,498
Acquired through business combination	—	920	—	—	920
Additions	—	—	—	185	185
Balance at 31 December 2018	**16,490**	**2,342**	**586**	**185**	**19,603**
Amortisation and impairment					
Balance as at 1 January 2017	—	17	203	—	220
Charge for the year	—	100	112	—	212
Balance at 31 December 2017	**—**	**117**	**315**	**—**	**432**
Balance as at 1 January 2018	—	117	315	—	432
Charge for the year	—	157	36	12	205
Balance at 31 December 2018	**—**	**274**	**351**	**12**	**637**
Carrying amounts					
At 31 December 2017	16,490	1,305	271	—	18,066
At 31 December 2018	**16,490**	**2,068**	**235**	**173**	**18,966**

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 2018, 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 31 December 2018	**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 sensitivities 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.

Client portfolio

Client portfolio represents the value assigned to the individual client portfolios acquired through the acquisition of London & Colonial Holding Ltd in 2016, Harbour Pensions Ltd in 2018 and the BUPA portfolio which was reclassified during the year ended 31 December 2017. The Group's client portfolios are amortised over the useful life which has been determined to be ten years.

13. INTANGIBLE ASSETS *(continued)*

Company	Costs Development £000	IT Development £000	Total £000
Costs			
Balance as at 1 January 2017	288	—	288
Additions	79	—	79
As at 31 December 2017	**367**	—	**367**
Balance as at 1 January 2018	367	—	367
Additions	—	51	51
As at 31 December 2018	**367**	**51**	**418**
Amortisation and impairment			
Balance as at 1 January 2017	83	—	83
Charges for the year	29	—	29
As at 31 December 2017	**112**	**—**	**112**
Balance as at 1 January 2018	112	—	112
Charges for the year	36	4	40
As at 31 December 2018	**148**	**4**	**152**
Carrying amounts			
As at 31 December 2017	255	—	255
As at 31 December 2018	**219**	**47**	**266**

14. Investments

Group – Other investments

Investments relate to £74,000 (2017: £81,000) 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.

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 2018 £000	31 December 2017 £000
Shares in Group undertakings		
Balance at start of year	21,092	21,442
Adjustment	—	(350)
Balance at end of year	**21,092**	21,092

15. TRADE AND OTHER RECEIVABLES

Group	31 December 2018 £000	31 December 2017 £000
Trade receivables	3,508	3,434
Other receivables	2,773	2,173
Total	**6,281**	5,607

Company	31 December 2018 £000	31 December 2017 £000
Receivables due from related parties	9,153	8,666
Other receivables	1,234	555
Total	**10,387**	9,221

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 24.

16. CASH AND CASH EQUIVALENTS

Group	31 December 2018 £000	31 December 2017 £000
Bank balances	17,267	18,363
Cash and cash equivalents in the statement of cash flows	**17,267**	18,363

Company	31 December 2018 £000	31 December 2017 £000
Bank balances	884	873
Cash and cash equivalents in the statement of cash flows	**884**	873

17. CAPITAL AND RESERVES

Authorised, called up, issued and fully paid	31 December 2018 £000	31 December 2017 £000
59,408,088 ordinary shares of £0.001 each (2017: 59,408,088 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 869,780 (2017: 537,780) shares at 31 December 2018.

Share premium
There were no new shares issued during the years ended 31 December 2018 and 31 December 2017.

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 2018 £000	31 December 2017 £000
1.9 pence per qualifying ordinary share (2017: 1.6 pence)	**1,129**	951

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 2018 £000	31 December 2017 £000
1.3 pence per qualifying ordinary share (2017: 1.2 pence)	**772**	713

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 (2017: £55,000).

19. EARNINGS PER SHARE

Earnings per share for the year from 1 January 2018 to 31 December 2018 is based on the profit after taxation of £3,683,000 (2017: £3,974,000) divided by the weighted average number of £0.001 ordinary shares during the year of 59,408,088 basic (2017: 59,408,088) and 62,378,491 dilutive (2017: 62,378,491) in issue.

A reconciliation of the basic and diluted number of shares used in the year ended 31 December 2018 is:

	31 December 2018	31 December 2017
Weighted average number of shares	59,408,088	59,408,088
Share incentive plan (Note 18)	2,970,404	2,970,404
Diluted	**62,378,492**	62,378,492

20. TRADE AND OTHER PAYABLES

Group	**31 December 2018 £000**	31 December 2017 £000
Deferred income	3,997	3,751
Trade payables	384	357
Insurance technical reserve	947	1,530
Bank loan	1,650	1,648
Contingent consideration	150	—
Other creditors and accruals	3,373	3,464
Total	**10,501**	10,750

Company	**31 December 2018 £000**	31 December 2017 £000
Owed to related parties	6,634	6,364
Bank loan	1,650	1,648
Other creditors and accruals	471	560
Total	**8,755**	8,572

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 £3,997,000 as at 31 December 2018 (2017: £3,751,000).

The Group's exposure to liquidity risk related to trade and other payables is described in Note 24.

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

Group	**31 December 2018 £000**	31 December 2017 £000
Bank loan	—	1,652
Total	**—**	1,652

Company	**31 December 2018 £000**	31 December 2017 £000
Bank loan	—	1,652
Total	**—**	1,652

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 was interest only for the first year with quarterly repayments commencing in 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.

With effect from 1 January 2018, and following the implementation of IFRS 9, the Group applies an expected credit losses (ECL) model as opposed to incurred credit loss model, as per the requirements under IAS 39.

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. The Group believes its exposure to liquidity risk is minimal given its current cash balances and existing financial obligations.

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 £17,000 after tax (2017: £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. A change of 100 basis points in the Euro to Sterling exchange rate increases or decreases equity and profit or loss by £30,000 after tax (2017: £30,000). 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, certain 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 share capital, 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 2018 was negative suggesting that the Group has sufficient liquidity to meet its obligations as they fall due. Net debt compared to equity at 31 December 2018 was as follows:

	31 December 2018 £000	31 December 2017 £000
Total liabilities	11,409	13,475
Less: cash and cash equivalents	17,267	18,363
Adjusted net debt	(5,858)	(4,888)
Total equity and adjusted equity	**33,062**	30,772
Adjusted net debt to adjusted equity ratio	**(0.18)**	(0.16)

23. CONTINGENT LIABILITY

As stated in Note 3r and as required by IFRS, provisions are recorded 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. As stated in Note 2 this requires judgement and the use of assumptions about the likelihood and magnitude of any cash outflow. The Group analyses its exposure based on available information, including consultation with professional indemnity insurers and external legal advisers where appropriate, to assess any potential liability.

The Group operates in a legal and regulatory environment that exposes it to certain litigation risks and in particular the Group recognises that the UK SIPP industry is becoming more litigious over non-performing assets. Whilst the Group does not provide financial or investment advice to its customers and is not responsible for the performance of the investments, the Group occasionally receives complaints in respect to these matters as well as others relating to general services provided. Each complaint is dealt with on its merits.

On the basis of present information, amounts already recognised and the availability of insurance coverage, it is the opinion of the Group that the ultimate determination of complaints received to date will not have a material adverse effect on the consolidated financial position of the Group. However, it is possible that future results of operations or cash flows for any annual period could be materially affected by an unfavourable resolution of these matters.

24. 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 2018 £000	31 December 2017 £000
Investments	74	81
Trade and other receivables	6,281	5,607
Cash and cash equivalents	17,267	18,363
Total	**23,622**	24,051

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 2018 and 31 December 2017.

Impairment losses on trade receivables

Before 1 January 2018, impairment on trade receivables was determined by assessing the conditions of the debtors to determine whether there is objective evidence of impairment. Objective evidence that trade receivables were impaired included:

- 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.

With the adoption of IFRS 9, the Group applies an ECL model as discussed in Note 3n.

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

	Gross receivables 31 December 2018 £000	**Individual Impairment 31 December 2018 £000**	**Total £000**	Gross receivables 31 December 2017 £000	Individual Impairment 31 December 2017 £000	Total £000
Not past due	1,171	—	1,171	1,202	—	1,202
Past due 0-30 days	862	—	862	625	—	625
Past due 31-120 days	398	—	398	209	—	209
More than 120 days past due	1,381	(304)	1,077	1,692	(294)	1,398
Total	**3,812**	**(304)**	**3,508**	3,728	(294)	3,434

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 2018 £000	31 December 2017 £000
Balance at start of year	294	739
Movement in bad debt allowance	86	6
Amounts written off	(49)	(451)
Amounts recovered	(27)	—
Balance at end of year	**304**	294

Based on historic default rates and knowledge of the customers, the Group believes that no impairment allowance is necessary in respect of some of the trade receivables.

24. FINANCIAL INSTRUMENTS *(continued)*

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 2018	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	384	384	384	—	—
Contingent consideration	150	150	150	—	—
Bank loan	1,650	1,676	841	835	—
Other creditors and accruals	3,373	3,373	3,373	—	—
Corporation tax payable	908	908	908	—	—
Total	**6,465**	**6,491**	**5,656**	**835**	**—**

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**

25. LEASES

Operating Leases

Non-cancellable operating leases are payable as follows:

	31 December 2018 £000	31 December 2017 £000
Less than one year	702	620
Between one year and five years	2,394	2,736
More than five years	—	458
Total	**3,096**	**3,814**

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 five years.

25. LEASES *(continued)*

Finance Leases

Non-cancellable finance leases are payable as follows:

	31 December 2018 £000	31 December 2017 £000
Less than one year	10	10
Between one year and five years	2	12
More than five years	—	—
Total	**12**	**22**

26. RELATED PARTIES

Transactions with key management personnel and Directors' compensation

Key management compensation comprised:

	31 December 2018 £000	31 December 2017 £000
Short term employee benefits	541	628
Share based payments	36	36
Total	**577**	**664**

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 2018 (2017: 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 £4,433 for the period to 31 December 2018 (2017: £5,263), of which £nil was outstanding at 31 December 2018 (2017: £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 2018 the Group owed Fiander Properties Limited, a company related to the Group by virtue of common ownership £227,152 (2017: £277,152).

During the year the Company introduced the head office charges to its subsidiaries to recover the costs of running the Company on the stock exchange.

The Company received dividends of £2,615,006 (2017: £2,616,902) from STM Malta Limited, £550,000 (2017: £350,000) from STM Fidecs Limited, £2,664,500 (2016: £965,000) from London & Colonial Holdings Limited and £600,000 from STM (Caribbean) Limited (2017: £1,750,000).

27. GROUP ENTITIES

Principal subsidiaries

As at 31 December 2018 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 2018	Ownership interest 31 December 2017	Activity
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 Fidecs Life, Health and Pensions Limited	Gibraltar	100% indirectly	100% indirectly	Administration of clients' assets
STM Fidecs Central Services Limited	Gibraltar	100% indirectly	100% indirectly	Services and Administration
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 Life Assurance PCC Plc	Gibraltar	100% indirectly	100% indirectly	Insurance company
STM Nummos Life SL	Spain	100% indirectly	100% indirectly	Administration of clients' assets
STM Malta Trust and Company Management Limited	Malta	100% indirectly	100% indirectly	Administration of clients' assets
London & Colonial Assurance PCC Plc	Gibraltar	100% indirectly	100% indirectly	Insurance company
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
STM (Caribbean) Limited	BVI	100% directly	100% directly	Intellectual property holding company
Harbour Pensions Limited	Malta	100% indirectly	—	Administration of clients' assets

28. SUBSEQUENT EVENTS

Subsequent to the year end, on 12 February 2019, the Group acquired 100% of Carey Administration Holdings Limited ('CAHL' or 'Carey') for a consideration of £400,000. CAHL in turn owns 70% of Carey Pensions UK LLP ('Carey Pensions'), offering SIPP administration products to the UK market, and 80% of Carey Corporate Pensions UK Limited ('Carey Corporate'), offering auto-enrolment workplace pensions solutions to UK based SMEs. Carey Pensions has over 4,000 members and Carey Corporate has over 65,000 members. The minority shareholdings of both Carey Pensions and Carey Corporate are owned by Christine Hallett, who continues as Managing Director of the Carey businesses.

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.

Due to security restrictions at the venue, if you intend to attend the meeting please notify Veronique Noel (Veronique.noel@stmgroupplc.com) before 12 noon (UK time) on Friday 10 May 2019.

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 14 May 2019 at 2:00 p.m. at Pinsent Masons, 30 Crown Place, London EC2A 4ES 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 2018 and the reports of the Directors and auditors thereon be received.
2. THAT the final dividend of 1.3p per share recommended by the Directors be declared to be payable on 26 June 2019 to shareholders registered at the close of business on 31 May 2019, the ex-dividend date of the shares is 30 May 2019.
3. THAT the appointment as Director of the Company of Graham Kettleborough, who has been appointed as Director during the period since the last Annual General Meeting, be confirmed in accordance with article 83 of the Company's Articles of Association (the 'Articles').
4. THAT the appointment as Director of the Company of Duncan Crocker, who has been appointed as Director during the period since the last Annual General Meeting, be confirmed in accordance with Article 83 of the Articles.
5. THAT the appointment as Director of the Company of Pete Marr, who has been appointed as Director during the period since the last Annual General Meeting, be confirmed in accordance with Article 83 of the Articles.
6. THAT Malcolm Berryman who has retired from office by rotation in accordance with Article 88 of the Articles, be reappointed as a Director of the Company.
7. THAT 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 2020.

Special Resolution

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

Notes:

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

A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of that member. A proxy need not be a member of the Company. A Form of Proxy is enclosed. Proxy forms must be returned 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 close of business on 10 May 2019 (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 close of business on 10 May 2019 (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.

By order of the Board

Elizabeth A. Plummer

Elizabeth A Plummer
Company Secretary
18 Athol Street, Douglas
Isle of Man, IM1 1JA
25 March 2019

COMPANY INFORMATION

CORPORATE

Directors

Duncan Crocker
Non-Executive Chairman

Alan Roy Kentish ACA ACII AIRM
Chief Executive Officer

Therese Gemma Neish BA (Hons) FCCA
Chief Financial Officer

Pete Marr MCMII
Chief Operating Officer

Malcolm Berryman
Non-Executive Director

Graham Kettleborough
Non-Executive Director

Robin Ellison
Non-Executive Director

Company Details

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Company Number
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Company Secretary
Elizabeth Anne Plummer
FCA TEP CTA

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