STM GROUP PLC

ANNUAL REPORT & ACCOUNTS **2019**

STMGROUPPLC.COM

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.

CONTENTS

FINANCIAL HIGHLIGHTS

REVENUE	2019	2018	2017
Reported	£23.3m	£21.4m	£21.5m
Underlying*	£22.9m	£20.5m	£20.2m

PROFITABILITY	2019	2018	2017
Reported profit before other items	£3.5m	£4.7m	£4.8m
Underlying profit before other items*	£4.2m	£4.4m	£4.0m
Reported PBT	£3.9m	£4.0m	£4.0m
Underlying PBT*	£2.6m	£3.7m	£3.2m

RECURRING REVENUE

2019	2018	2017
£18.0m	£16.3m	£16.1m
(77%)	(76%)	(75%)

UNDERLYING* PROFIT MARGINS

	2019	2018	2017
Profit before other items	18%	21%	19%
PBT	11%	18%	15%

TOTAL DIVIDENDS

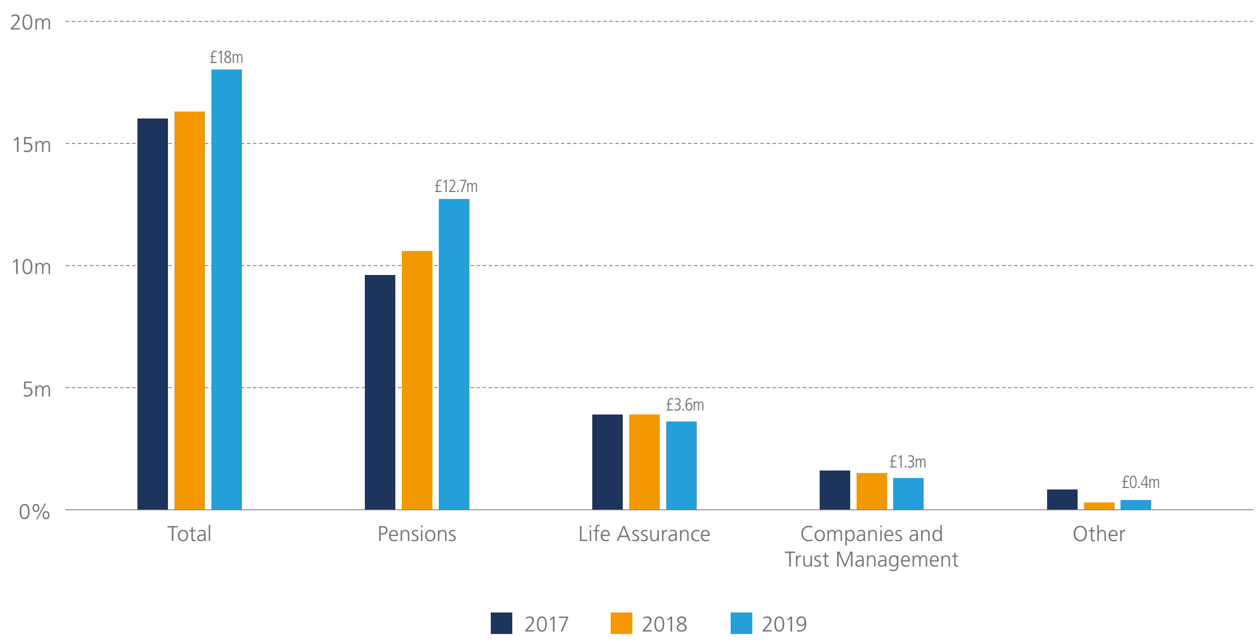
2019	2018	2017
1.50p	2.00p	1.80p

CASH & CASH EQUIVALENTS

	2019	2018	2017
Balance net of borrowing	£17.2m	£15.6m	£15.1m
Cash flow from operations	£3.1m	£2.6m	£2.6m

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

RECURRING REVENUE



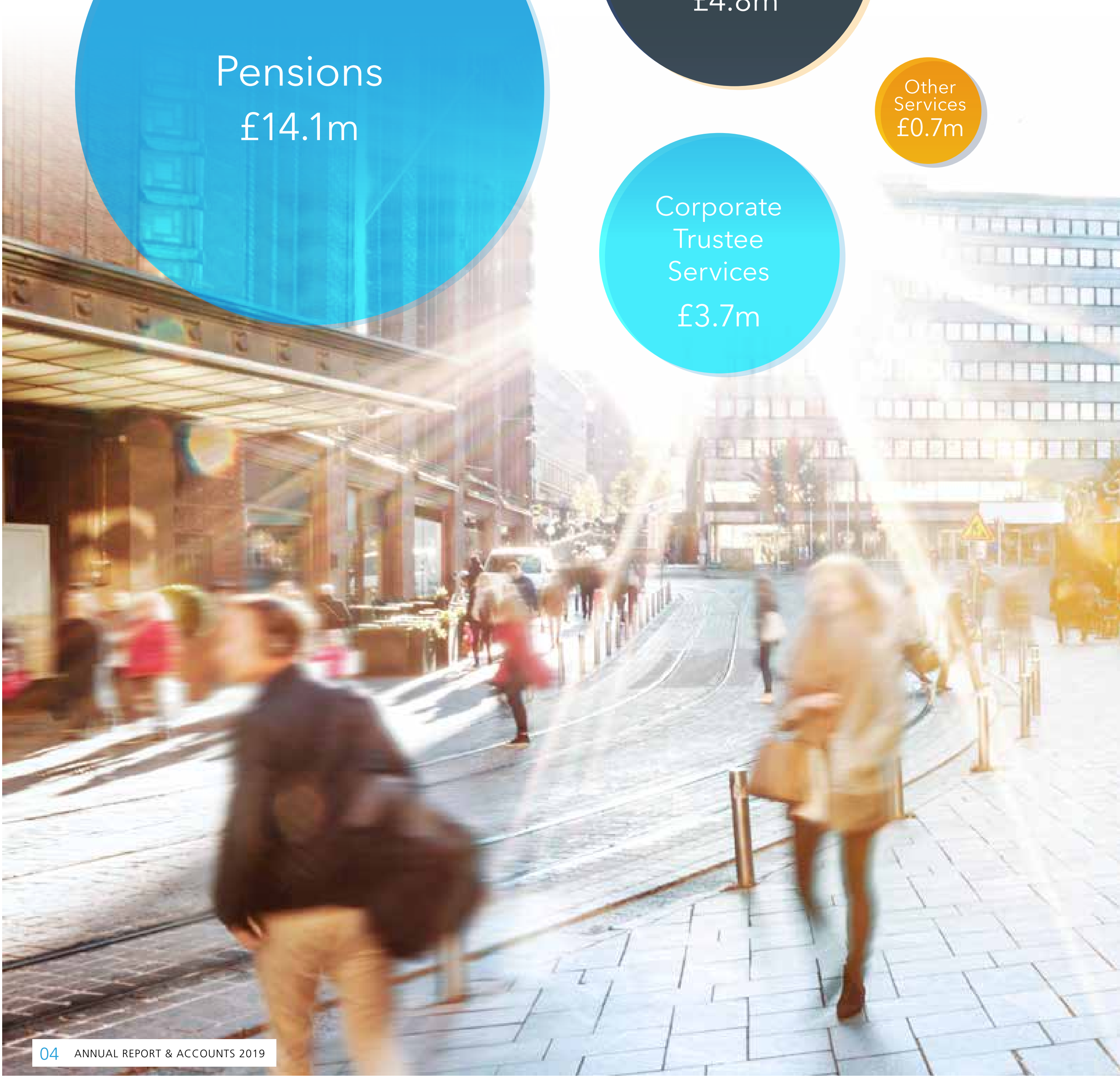
REVENUE BY OPERATING SEGMENT

Life Assurance
£4.8m

Pensions
£14.1m

Other Services
£0.7m

Corporate Trustee Services
£3.7m



OPERATIONAL HIGHLIGHTS

- Redefined Purpose and Vision that sets out our roadmap for the future
- The continued repositioning of the Group as a UK centric PLC with more UK focussed pensions and life products
- Repositioned the Carey name to our new UK brand; "Options, for your tomorrow"
- Entered the developing and exciting UK workplace pension solutions market via the Carey acquisition – a sector now effectively closed to new entrants
- Implementation of new Target Operating Model allowing for clearer and more efficient reporting lines, stronger governance and control
- Ongoing IT development to achieve greater efficiencies and enhance margins
- Carey acquisition now operationally integrated to allow for cost benefits to materialise
- Pipeline of acquisition opportunities, particularly in the UK
- Launch of our new flexible annuity product as an alternative to a SIPP

PRODUCT OFFERING

UK WORKPLACE PENSIONS

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

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

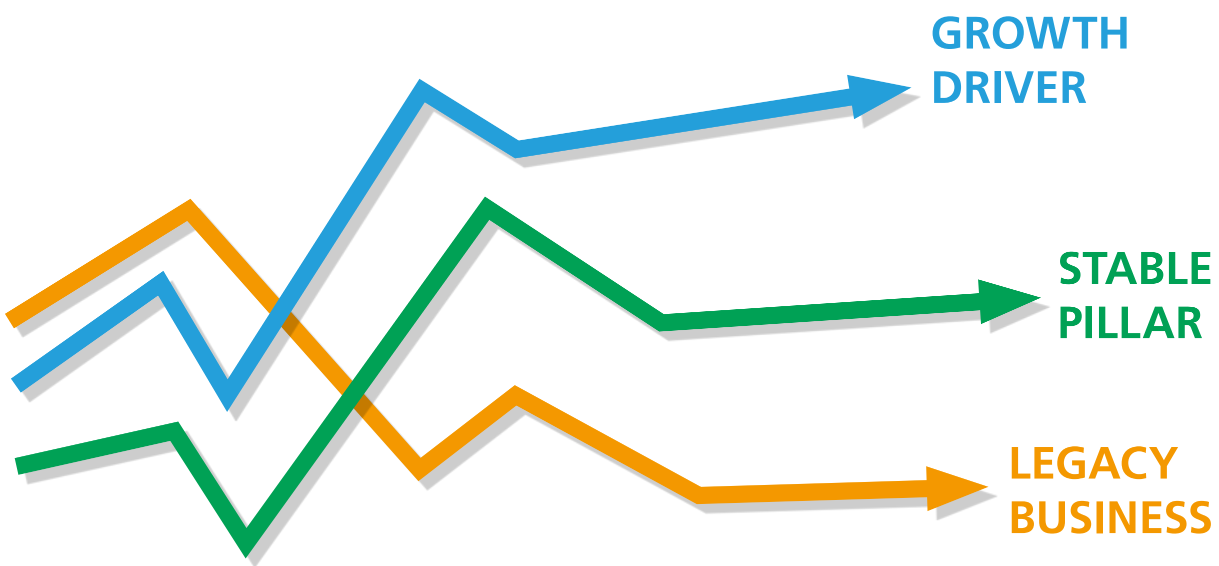
With two life assurance companies in the Group STM is able to offer a broad range of product solutions with a specific focus on asset and investor protection, privacy and tax optimisation.

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 5% and still open to EEA residents this provides a solid basis for STM's recurring revenue.

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 16% of the overall revenues.



MAIN TRADING JURISDICTIONS

United Kingdom
Products Administered:
SIPPS
Workplace pensions

Gibraltar
Products Administered:
QROPS
Life Bond & Annuities
Trust & Company

Malta
Products Administered:
QROPS

Jersey
Products Administered:
Trust & Company

264
Our Colleagues

134,000
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.

"THERE CONTINUES TO BE A MAJOR FOCUS ON BUILDING OUR DISTRIBUTION NETWORK FOR THE UK MARKET, WITH A VIEW THAT THIS IN TURN WILL ACCELERATE OUR UNDERLYING REVENUE AND HENCE PROFITABILITY GOING FORWARD."

CHAIRMAN'S STATEMENT

DUNCAN CROCKER
Chairman

I AM PLEASED TO PRESENT OUR 2019 FINANCIAL STATEMENTS WHICH REFLECT A CHALLENGING YEAR BUT NEVERTHELESS ONE OF SIGNIFICANT PROGRESS FOR DELIVERING ON THE FUTURE ASPIRATIONS OF THE STM BUSINESS. I HAVE ALSO CROSS REFERENCED BELOW THE DRAMATIC IMPACT TO WORLD ECONOMIES BEING CAUSED BY COVID-19 AND THE POTENTIAL CONSEQUENTIAL IMPACT ON THE STM GROUP.

The Board has a clear growth strategy in place which has driven a commitment of resources in strengthening and broadening our operating model. This in turn will allow for future growth of our revenue line whilst still being able to deliver on our service levels and operating margins, a key requirement for satisfying our various stakeholders.

The acquisition of Carey in February 2019 has, as intended, increased our UK footprint and given STM more depth to its UK product base. This makes us a more robust business and diversifies us away from being seen purely as a business that caters for UK expatriates. There will be specific focus during 2020 in finalising the IT and wider efficiency gains which were implicit in the Carey acquisition case.

There continues to be a major focus on building our distribution network for the UK market, with a view that this in turn will accelerate our underlying revenue and hence profitability going forward.

I should also recognise that the Board naturally shares the disappointment of the messages in our trading update in November which resulted in revised 2019 profit expectations and a knock-on effect into our 2020 forecasts. However, we continue to strongly believe that our overall business strategy is resilient and progressive, and will bear fruit in enhancing future shareholder value.

As a board, we also believe that there remain opportunities to make strategic acquisitions to complement our existing Group companies and deliver enhanced shareholder value. The Board also recognises that the Group has significant capital tied up across its businesses and is actively investigating ways to make itself more efficient in this regard.

I would like to take this opportunity to thank the Group's Directors, executive and all our colleagues for their relentless efforts during 2019. I look forward to updating all our stakeholders as we focus on and execute our 2020 plans with real determination and skill.

Finally, I am conscious that the COVID-19 pandemic continues to unfold and inflict enormous disruptions both at a personal, as well as economic level. The delay from intending to announce our results on 24 March until today, has allowed us to challenge and assess the resilience of our business model, and I am pleased to confirm that the majority of our recurring annual revenue is not sensitive to interest rates or Assets Under Administration ("AUA") and thus remains predictable for the foreseeable future.

I would like to confirm that my primary concern remains protecting the welfare of our staff, their families and our clients, whilst continuing to manage the day to day operations of the business. Bearing this in mind we have implemented a range of local and focussed contingency measures to achieve these aims as best we can.

Duncan Crocker

Duncan Crocker
Chairman
27 April 2020

“THE GROUP INFRASTRUCTURE HAS BEEN EXPANDED TO ALLOW FOR GROWTH, BOTH ORGANIC AS WELL AS BY ACQUISITION. IN ADDITION, THERE ARE A NUMBER OF I.T. INITIATIVES THAT HAVE BEEN COMMENCED THAT WILL IMPROVE MARGINS...”

CHIEF EXECUTIVE OFFICER'S STATEMENT

ALAN KENTISH
Chief Executive Officer

2019 HAS BEEN A YEAR OF TRANSITION GROUP-WIDE, NOT JUST IN OUR OPERATING MODEL BUT ACROSS THE VARIOUS COMPANIES AND PRODUCT AREAS, TO CREATE A MORE EFFICIENT AND UNIFIED BUSINESS. THE ACQUISITION OF CAREY PENSIONS, COMPLETED IN FEBRUARY 2019, ADDED ANOTHER POSITIVE DIMENSION.

Our new operating model now defines the accountabilities and responsibilities of the various functions within the Group and our subsidiaries, which will enable more efficient and effective ways of working. This model has given the Group additional resources in the form of a COO, Head of IT and Head of Human Resources, which in turn has helped us to structure the Group for further expansion both by acquisitions and organic growth, while further strengthening our governance and controls.

The Group delivered an overall profit before tax of £3.9 million in 2019, similar to 2018 at £4.0 million. Our profit before other items, (defined as profit before taxation, finance income and costs, depreciation, amortisation, bargain purchase gain and gain on the call options) was £3.5 million for 2019 compared to £4.7 million in 2018.

Revenue increased by almost 9% to £23.2 million (2018: £21.4 million), although underlying profit margins (before other items) have reduced from 21% in 2018 to 18% in 2019, on the back of the Group-wide investment and the development of the Workplace pensions business which, as anticipated, is yet to reach breakeven.

The SIPP market remains in a state of uncertainty with the Berkeley Burke appeal not proceeding due to lack of funding and the Carey vs Adams case of March 2018 still not having a published determination. This has driven additional costs within the market, such as rising professional indemnity insurance, as well as concerns from intermediaries in providing advice that have all created an unhelpful market backdrop.

The Carey acquisition has meant that we have now relocated our UK trading hub from Haywards Heath to Milton Keynes, which has taken some time and effort to achieve. Integration costs of bringing Carey into the Group amounted to circa £0.5 million, whilst the primary benefits will only be seen in 2020 onwards. On top of these costs, the Carey pensions group included the Corporate UK Auto-enrolment business that was still loss making at the time, and eroded £0.6 million of underlying Group profitability. As described in more detail below, this particular business is scheduled to move into profitability in 2020. On the positive side, but not forming part of operating profits, the Group was able to demonstrate a bargain purchase of £1.7 million upon acquiring the Carey businesses. 2019 concluded with the rebranding of the Carey businesses to our new UK brand, Options.

Underlying trading performance across the various subsidiaries was very much in line with management expectations. The Group saw a slight slowing down of new business volume for its ROPs and International SIPP products when compared to 2018 volumes, however attrition rates remain low when compared to the UK SIPP product. The UK focussed flexible annuity products and the re-launch of the Carey SIPP did not generate the volumes initially expected, and this appears to be down to a longer than expected timeline to conversion as opposed to the products themselves.

Following the strengthening of our IT operating model and controls, 2019 saw the initiation of a number of important IT projects that will deliver efficiencies and improved margins upon their successful conclusion during 2020 and early 2021.

As noted within the operational highlights below, the strong common theme underpinning our core business units is the significantly high percentage of recurring revenue. This predictability allows us the confidence to invest for the future knowing that such investment will provide enhanced operating margins going forward. Within the "Outlook" section below, we consider in more detail the impact of the COVID-19 virus on our existing revenue stream, and our expectations for 2020 new business revenues.

CHIEF EXECUTIVE OFFICER'S STATEMENT

FINANCIAL REVIEW

PERFORMANCE IN THE YEAR

The principal key performance indicators used by the Board to assess the financial performance of the Group are as per Table 1 below.

Profitability in 2019 remained similar to that of 2018 and amounted to a reported profit before tax ("PBT") of £3.9 million (2018: £4.0 million), and profit before other items of £3.5 million (2018: £4.7 million).

Within this measure there are a number of one off non-recurring movements, and accounting adjustments as shown in Table 2 below. Some of these accounting adjustments are inevitable for an acquisitive group, and will either occur at profit before other items level or at reported PBT level. Non-recurring costs of approximately £0.6 million were incurred in relation to the application for authorisation for the Workplace pension business, recruitment costs in building the enhanced infrastructure, assurance reviews over board efficiencies and the write-off of some legacy issues surrounding the CTS and Spanish entities.

Underlying profit before other items has remained similar between the years, with £4.2 million in 2019 and £4.4 million in 2018. However, 2019 includes the impact of applying IFRS16: Leases, which for 2019 reduced operating expenses by £0.7 million and increased depreciation and interest charges by this amount.

In addition, and offsetting the IFRS 16 impact, 2019 results include the underlying expected losses for Carey of £0.7 million. Adjusting for these and the IFRS 16 impact would result in a like for like underlying profit before other items for 2019 of £4.2 million demonstrating a stable and predictable business.

The underlying PBT for the year amounted to £2.6 million (2018: £3.7 million). Underlying Group revenue (defined on a consistent basis with underlying PBT and profit before other items) for 2019 has increased from £20.5 million to £22.9 million, with overall Group reported revenue of £23.3 million (2018: £21.4 million).

Pleasingly, recurring annual revenue, which is an important key performance indicator for the Board remains steady at 77% of 2019 total revenues (2018: 76%), thus a total of £18.0 million (2018: £16.3 million).

Table 1

KPI	DEFINITION	2019 Results	2018 Results
Revenue (£000)	Income derived from the provision of services	23,251	21,401
Profit before other items (£000)	Revenue less operating expenses i.e. profit before taxation, finance income and costs, depreciation, amortisation, bargain purchase gain and gain on the call options	3,475	4,709
Profit before other items margins (%)	Profit before other items divided by revenue	15%	22%
Profit before tax (£000)	Profit before taxation	3,923	4,033
Underlying revenue (£000)	Revenue net of non-recurring costs and other exceptional items including bargain purchase gains and technical reserve releases that do not form part of the normal course of business as per Table 2 on page 13	22,911	20,518
Underlying profit before other items (£000)	Profit before other items net of non-recurring costs and other exceptional items including bargain purchase gains and technical reserve releases that do not form part of the normal course of business as per Table 2 on page 13	4,235	4,421
Underlying profit before tax (£000)	Profit before tax net of non-recurring costs and other exceptional items including bargain purchase gains and technical reserve releases that do not form part of the normal course of business as per Table 2 on page 13	2,565	3,745
Underlying profit margins (%)	Underlying profit before other items divided by revenue	18%	21%
Recurring revenue (£000)	Revenue derived from annual management charges and/or contractual fixed fee agreements	18,025	16,300
Like for like underlying profit before other items (£000)	Underlying profit before other items adjusted for the impact of new accounting standards and acquisitions in the year of acquisition	4,200	4,400

Table 2

RECONCILIATION OF REPORTED TO UNDERLYING MEASURES:	REVENUE		PROFIT BEFORE OTHER ITEMS		PROFIT BEFORE TAX	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Reported measure	23,251	21,401	3,475	4,709	3,923	4,033
Less: release on technical reserve	(946)	(583)	(946)	(583)	(946)	(583)
Add/(less): adjustment due to revenue recognition policy changes on acquisitions	606*	(300)	606*	(300)	606*	(300)
Less: bargain purchase gain on acquisition and gain on call options	–	–	–	–	(2,118)	–
Add: integration and acquisition costs	–	–	461	–	461	–
Add: costs of skilled person review on Gibraltar regulated entities	–	–	–	275	–	275
Add: other non-recurring costs	–	–	639	320	639	320
Underlying measure	22,911	20,518	4,235	4,421	2,565	3,745

* As more fully disclosed in Note 6 an exercise was carried out following the acquisition of CAHL to align their accounting policies with the Group's which resulted in a pre-acquisition adjustment in CAHL's financial statements. This amount is not included in our consolidated reported measures but represents the revenue and profit that would have been obtained if STM Group Plc had had full ownership of CAHL for the full year.

Profit before other items as a percentage of revenue in 2019 was 15% (2018: 22%) resulting in an actual figure of £3.5 million (2018: £4.7 million). The fall in margin results from specific one-off costs and infrastructure initiatives rather than an erosion of profitability at subsidiary trading levels, as further detailed above.

As detailed above, financing, depreciation and amortisation costs have been impacted by this year's adoption of IFRS 16. This is most significant in depreciation and amortisation which has increased by £0.9 million from £0.4 million in 2018 to £1.3 million in 2019. A total of £0.5 million is as a result of IFRS 16 with the remaining increase being predominantly due to the recognition of the intangible assets acquired with the Carey Group.

Following the acquisition of the Carey Group in February 2019 and as previously reported, the Board has determined that this acquisition has resulted in a bargain purchase gain as defined by International Financial Accounting Standard ("IFRS") 3, Business Combinations. This is in effect negative goodwill as a result of the consideration paid plus the amount of the non-controlling interest being lower than the fair value of the net assets acquired, which comprise mainly the SIPP and the Corporate Pension client portfolios. The value of the bargain purchase gain has been calculated at £1.7 million and is recognised immediately in the Statement of Comprehensive Income.

Furthermore, the Group entered into call option agreements to acquire the non-controlling interests in the Carey Group from the current owner of the non-controlling interests. These have been valued at £0.4 million which is also recognised in the Statement of Comprehensive Income.

TAX CHARGE AND EARNINGS PER SHARE

The tax charge for the year was £0.5 million (2018: £0.4 million). This is an effective tax rate of 13% (2018: 9%) which is in line with expectations.

Earnings per share ("EPS") for 2019 is 5.73p compared to 6.20p for 2018. 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 expired in April 2019. This stipulated a maximum dilution factor of 5% resulting in diluted EPS of 5.64p (2018: 5.90p).

CASHFLOWS

Cash and cash equivalents amounted to £18.4 million as at 31 December 2019 (2018: £17.3 million) with net cash inflow from operating activities of £3.1 million for the year ended 31 December 2019 (2018: £2.6 million).

During the year the Company repaid the remaining balance of the bank loan taken out in 2016 for the acquisition of London & Colonial. Whilst this loan was a three year loan it was interest only for the first year thus repaid during 2018 and 2019. Repayments during 2019 for this loan amounted to £1.65 million (2018: £1.65 million). In addition the Company took out a separate bank loan for £1.20 million, repayable over one year, the funds of which are earmarked for Carey Corporate should the need arise through a trigger event, as defined by The Pension Regulator. This loan was outstanding as at 31 December 2019.

Net cash and cash equivalents as at 31 December 2019 were £17.2 million (2018: £15.6 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.

In addition to the bank borrowing repayments, the Group has paid consideration in relation to both Harbour and Carey acquisitions amounting to £0.4 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 Harbour business.

CHIEF EXECUTIVE OFFICER'S STATEMENT

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 2019 year end amounted to £1.2 million (2018: £0.8 million). The reason for the increase is largely due to the new Auto-enrolment business acquired from Carey. These amounts will be billed during the course of 2020.

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 slightly this year and stands at £4.2 million as at 31 December 2019 (2018: £4.0 million). This is predominantly due to increased revenues within the business.

Other large balance sheet items relate to trade and other receivables of £5.8 million as at 31 December 2019 (2018: £6.3 million). It should be noted that within this balance, trade receivables at the year end stood at £3.9 million, an increase from prior year's balance of £3.5 million due to the acquisition of the Carey Group and the revenue growth across the overall Group.

DIVIDEND

In light of the exceptional and continuing global impact of COVID-19, the Board considers it appropriate to take a prudent approach to cash management. Accordingly, and in order to provide the Board with maximum flexibility, instead of proposing a Final Dividend at the forthcoming AGM the Directors have declared a second interim cash dividend to shareholders of 0.75p per share. This together with the first interim dividend of 0.75p (2018: 0.70p) brings the total dividend proposed in respect of the year to 1.50p per share (2018: 2.00p).

The Board has decided that it would be prudent to maintain higher cash balances at this time, whilst recognising that the high proportion of recurring revenues gives the Board confidence in the resilience of the business.

The second interim dividend will be paid on 26 June 2020 to shareholders on the register at the close of business on 5 June 2020. The ordinary shares will be marked ex-dividend on 4 June 2020.

OPERATIONAL OVERVIEW

PENSIONS

Our pension administration businesses are the life-blood of our Group, and the corner stone to our profitability.

Over the last few years we have successfully moved from offering solely pension solutions to expatriates, through to offering SIPP and other solutions to UK residents. The addition of our Workplace pensions solutions for UK corporate businesses delivers a further string to our bow.

This strategic diversification invariably makes our business model more robust and less reliant on one specific product. In addition, it provides financial intermediaries with a full range of retirement solutions for their clients within one group.

Unfortunately, as noted above, the uncertainty in the SIPP market in relation to the legal duties of a SIPP provider continue to have a negative impact on the industry generally.

The total revenue across our pensions businesses amounted to £14.1 million (2018: £11.5 million) and accounted for 61% of total Group revenue (2018: 54%).

The administration of our ROPS products continues to be our largest revenue generator accounting for £10.1 million of revenue (2018: £10.0 million). This administration is carried out in Malta and Gibraltar with the revenue split 75% and 25% respectively (2018: 74% and 26%).

The acquisition of the Carey SIPP business in February 2019 has helped to bolster our overall SIPP revenue stream from £1.6 million in 2018 to £2.7 million in 2019, allowing the businesses to gain more efficiencies through the integration of the two UK offices. Whilst the integration costs incurred effectively offset any profit contribution for 2019, these recurring benefits will be apparent in 2020.

Finally, the acquisition of the Carey corporate pension business has generated a new and exciting growth area for our pensions business. Whilst, as with all the auto-enrolment master trusts, it is in its fledgling days and incurred an expected loss of £0.6 million for 2019, based on revenue for the 10 months of £1.3 million, the market place allows for significant organic growth going forward. The business model is very scalable with an underlying fixed cost base, with further efficiencies coming through as part of a specific IT project that will conclude towards the end of 2020.

The performance of the various pension revenue streams within the Group is as follows:

	REVENUE		RECURRING PERCENTAGE	
PRODUCT	2019 £m	2018 £m	2019 %	2018 %
ROPS	10.1	10.0	94	94
SIPPs	2.7	1.6	76	83
Workplace pensions	1.3	–	95	–
Totals	14.1	11.6	90	92

LIFE ASSURANCE

The Group currently has two Gibraltar based life assurance companies, with the original intention of relocating one of these to Malta. Given the length of time that has passed, and with no successful outcome in sight, it has been agreed that a more efficient use of capital can be attained by initiating a portfolio transfer of policies from one life company to the other. This will ultimately allow a release of capital once that company no longer carries on insurance business and surrenders its license. Currently there is agreement from the European regulators that Gibraltar insurance companies are able to continue to service existing EU policies. Discussions are taking place to allow this to continue post 31 December 2020. However, if EU trade negotiations do not result in a favourable outcome in this respect STM Life has other options for this client portfolio.

The 2019 combined revenue figure was £4.8 million compared to £4.7 million for 2018. In both years there have been releases of technical reserves that are reflected as one-off contributions to revenue. For 2019 this amounted to £0.9 million (2018: £0.6 million), giving a like for like net revenue comparison of £3.8 million in 2019 as compared to £4.1 million in 2018.

In a similar manner to that of our pensions administration businesses, recurring revenue is a significant proportion of revenue (net of revenue releases) being 75% in 2019, and 84% in 2018, giving a predictable revenue trait to this business.

CHIEF EXECUTIVE OFFICER'S STATEMENT

CORPORATE AND TRUSTEE SERVICES ("CTS")

Turnover from the Corporate and Trustee Services ("CTS") division for the year was £3.7 million (2018: £4.2 million) thus accounting for 16% of the Group's total turnover (2018: 20%).

Our Jersey business contributed 52% (2018: 62%) of this revenue, with Gibraltar contributing the other 48% (2018: 38%).

Recurring revenue for the CTS operating segment was £1.3 million (2018: £1.5 million) and thus 35% of the total CTS revenues (2018: 35%).

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

Turnover classified as "other trading divisions" relate to the Spanish office that provides tax compliance and conveyancing to the expatriate market, and the now discontinued insurance management business and amounted to £0.7 million (2018: £1.0 million).

COVID-19

The COVID-19 virus has not only created unprecedented times from a health and social perspective but has changed the economic landscape for the immediate future, and probably for significantly longer. It is difficult to assess the long term financial impact on the business community generally, however our business model of fixed annual fees should mean that our existing recurring annual revenue stream is largely protected from any significant downturn.

The recently enforced delay in announcing our preliminary results originally intended for 24 March, has given us time to assess potential impacts on our business as a result of COVID-19's challenges to the world economy. Under this assessment, and based on current interest rates and the existing fall in AUA values as a result of COVID-19, we estimate that some £0.4 million of our existing £18 million of 2020 recurring revenue is at risk, with a similar consequential risk to profitability. In a similar vein and with depressed financial markets we would not expect to see increased attrition rates within our existing business.

At this time, it is incredibly difficult to assess the likely impact of COVID-19 on new business income for 2020, with the primary variables being the unknown impact on timeframe for individuals to make decisions in the financial services market, as well as the general ability for financial intermediaries to be able to interact with their clients in relation to that decision making process.

Having said the above, it is already apparent that both intermediaries and providers, including ourselves, are embracing technology to utilise new ways of conducting business. The reality is that decisions in relation to financial planning still need to be made, arguably even more so now, and therefore new business volumes might be delayed by a number of months but will over time revert back to normal. There is therefore a risk that new business run-rates will be set back by some months, although this is not a trend that we have observed to date.

From an operational point of view, we have successfully implemented continuity plans across our businesses within the various jurisdictions. We have instigated contingency procedures within our businesses so as to both protect our staff as well as ensure that we are able to maintain service levels to our clients. Almost in their entirety, my STM colleagues have now adopted a working from home routine, and it is commendable that we have not seen any changes to our service levels to our customers, and other stakeholders.

OUTLOOK

2019 has been a year of transition, moving from a set of small businesses that are part of a group, through to now operating in a more cohesive and collective manner. The Group infrastructure has been expanded to allow for growth, both organic as well as by acquisition. In addition, there are a number of IT initiatives that have been commenced that will improve margins going into 2020 and 2021, and the integration of our two UK businesses is now complete.

This sets out our stall for 2020, where there is a strong focus on new business revenues to complement our solid recurring revenue streams. In this regard, the first half of 2020 will showcase our UK orientated products across our rebranded SIPP and Workplace pensions offerings, as well as our unique flexible annuity wealth preservation solution. These initiatives are supported by a dedicated and expanded UK based business development team, overseen by a new Head of Distribution.

The second half of 2020 will see the launch of our international occupational pension solutions from both Malta and Gibraltar, which will give additional growth opportunities to these jurisdictions.

The PLC Board remains focussed on developing the core activities of Life Assurance and Pensions administration, and will continue to look at opportunities to acquire businesses that support this strategy, whilst at the same time simplifying the overall Group structure going forward.

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, specifically at such a time of change and uncertainty. I look forward to updating the market during the course of 2020.

Alan Kentish

Alan Kentish

Chief Executive Officer
27 April 2020

DIRECTORS' REPORT

The Directors of STM Group Plc present their Annual Report together with the accounts of the Group and the independent auditor's report for the year ended to 31 December 2019. These will be laid before the shareholders at the Annual General Meeting to be held on 17 June 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

RESULT AND DIVIDENDS

The profit for the year of £3,403,000 (31 December 2018: £3,683,000) has been transferred to reserves.

In respect of the year ended 31 December 2019 an interim dividend of 0.75p per share was paid in November 2019 and the Directors recommend that a second interim dividend of 0.75p per share be paid in 26 June 2020.

GOING CONCERN

The financial position of the Company is shown by the accompanying financial statements on pages 32 to 62. The Directors have considered the current position, foreseeable risks and uncertainties facing the business, in particular the COVID-19 pandemic, and are of the opinion that the business remains a going concern.

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:

Duncan Crocker

Alan Kentish

Pete Marr (appointed 30 January 2019)

Therese Neish

Malcolm Berryman

Robin Ellison

Graham Kettleborough

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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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

SUBSTANTIAL INTERESTS

Save as disclosed in the 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 1 April 2020 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 1 April 2020

	%
Premier Miton Group	17.68
Clifton Participations Inc and A R Kentish	11.31
Septer Limited	10.86
River and Mercantile Asset Management LLP	5.56
Kestrel Partners LLP	3.69
Aeternitas Imperium Privatstiftung	3.59

INDEPENDENT AUDITOR

Deloitte LLP, being eligible, have expressed their willingness to continue in office as auditor. A resolution to re-appoint Deloitte LLP as independent auditor 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 17 June 2020 is set out on page 63.

By order of the Board

Alex Small

Alex Small LL.M ACG
Company Secretary
18 Athol Street
Douglas
Isle of Man IM1 1JA

27 April 2020

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.

Isle of Man 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 correctly 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 Isle of Man 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	**2019**	2018	Notes
Executive Directors			
Alan Kentish	£205,000	£205,000	a
Pete Marr	£177,939	—	b,c
Therese Neish	£160,925	£160,925	a
Sub-total	£543,864	£365,925	
Non-Executive Directors			
Duncan Crocker	£60,000	£20,000	d
Robin Ellison	£48,000	£54,837	e
Malcolm Berryman	£75,000	£51,000	e
Graham Kettleborough	£64,552	£14,000	e,f
Michael Riddell	—	£35,000	g
Sub-total	£247,552	£174,837	
Total	£791,416	£540,762	

a. During the three year period to 31 December 2018 the Executive Directors were included within an Annual Bonus Scheme that was principally driven by year on year increase in Earnings per Share with a minimum growth of 20%. As previously reported this formula derived a bonus pay-out for the year ended 31 December 2017 which was settled during 2019. As such Alan Kentish received £71,428 and Therese Neish received £56,071. No bonus was due for the year ended 31 December 2018 as the minimum target was not met.

b. Pete Marr was appointed on 30 January 2019.

c. Pete Marr receives benefit of 10% of his base salary by way of pension contribution. No other Directors received any benefits in the form of either pension contributions or share based incentives.

d. Duncan Crocker was appointed on 3 September 2018.

e. Malcolm Berryman and Robin Ellison were appointed to the boards of various Group subsidiaries in the second half of 2018, with Graham Kettleborough appointed during the year. As such their remuneration includes these new appointments.

f. Graham Kettleborough was appointed on 10 August 2018.

g. Michael Riddell resigned on 23 May 2018.

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 KENTISH, ACA ACII AIRM CHIEF EXECUTIVE OFFICER

Alan 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 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 STM's finance division shortly after the Group listed on AIM in 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 over 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 5 years where she qualified as a Chartered Certified Accountant in 2003.

PETE MARR, MCMI CHIEF OPERATING OFFICER

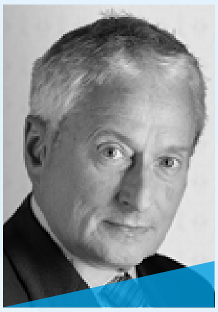
Pete has over 20 years experience in the financial services sector, he is a highly experienced and versatile Chief Operating Officer who delivers profitable business growth with clients, colleagues and partners through strong leadership, innovation and a relentless customer focus. Pete most recently 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 an 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).

CORPORATE GOVERNANCE

The Board is responsible for establishing and monitoring the strategic direction and performance of the Group, within a framework of prudent controls.

STM has formally adopted the Quoted Companies Alliance Code for Small and Mid-sized Quoted Companies (the "Code") and remained compliant with the Code throughout 2019. We set out below how the Directors have applied the Principles, and the spirit, of the Code.

STRATEGY

STM's strategy is to be the pensions and life assurance provider of choice in our chosen markets. Through organic growth, product development and targeted acquisitions, the Group will continue to leverage our reputation for product innovation and service to build sustainable, recurring revenues within a framework of sound governance and risk management.

Our business model is to:

- provide a range of innovative pension solutions to customers across our target markets;
- promote our Pensions Administration and associated Life Assurance products to internationally mobile individuals with a focus on those that have previously worked in the UK;
- focus on high growth, well regulated markets;
- operate the highest levels of service to both its customers and financial intermediaries in all jurisdictions;
- to embed a culture of customer-service, compliance and sound internal controls to build a sustainable, ethical business;
- 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;
- to identify and promote products, through its intermediary partners, to UK residents.

The Board has adopted a three year strategy which includes:

- focus our business in the life and pensions sector;
- increase the introducing intermediary network;
- diversification of the pensions and life product range so as not to be so reliant on limited products;
- increase our UK regulated products to offer to UK residents as well as the expat market;
- improve margins and the customer journey through efficiency and technology;
- seek opportunistic acquisition targets for both QROPS integration, as well as expansion in niche areas of the Pension and Life markets;
- pro-actively engage with key stakeholders, including shareholders and regulators.

RISK MANAGEMENT

The Board is ultimately responsible for the Group's risk management framework. Setting strategy includes determining the extent of exposure to the identified risks that the Company is able to bear and willing to take.

The Group operates a formal risk management framework which has been embedded across the Group and is overseen and monitored by the Board. In addition, the Board has adopted a formal risk appetite statement against which our strategy, business model and capital projects are tested and assessed.

The risk management function oversees the risk management framework day to day and is responsible for the implementation of risk management policies and processes throughout the Group. The compliance function in each jurisdiction provides assurance to the Group Audit & Risk Committee on regulatory and reputational risk through the completion of an annual compliance monitoring plan.

The Audit & Risk Committee meet not less than quarterly and formally report to the Board on risks across the Group. The review of risk is a standing agenda item, and is thus continually reviewed as part of an ongoing process.

Further assurance that our risk management processes are embedded and operating effectively is achieved via a rigorous internal audit regime which is overseen by the Audit & Risk Committee.

RISK MANAGEMENT *(continued)*

The Directors have carried out an assessment of the principal risks facing the Group.

Area	Description of risk	Examples of mitigating activities	Change from prior year
DISTRIBUTION AND MARKET DEMOGRAPHICS	Our markets are 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.	• 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 • 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 and is in the process of adopting a new share based incentive scheme • The Board is 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 minimize 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 is diversified in both its product range and the jurisdictions from which it administers these • 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. Currently there is agreement from the European regulators that Gibraltar insurance companies are able to continue to service existing EU policies. Discussions are taking place to allow this to continue post 31 December 2020. However, if EU trade negotiations do not result in a favourable outcome in this respect STM Life has other options for this client portfolio	No change

CORPORATE GOVERNANCE

RISK MANAGEMENT *(continued)*

Area	Description of risk	Examples of mitigating activities	Change from prior year
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	No change
COVID-19	Impact on operations due to office closures, travel restrictions and the loss of personnel due to potential 'self-isolation'. Potential impact on revenue due to economic uncertainty, declining asset valuations and interest rates.	• Business Continuity Plans activated across all subsidiary offices • Remote working capability enhanced across the Group • Regular communications to all staff outlining our company position with reference to local Government and Health Organisations advice and guidance • Vulnerable staff members identified and work arrangements adjusted as appropriate • Active consideration given to flexible working solutions to ensure staff can meet both extended family and ongoing work obligations • Ongoing management team meetings to appraise situation and review the appropriateness of our response as a business • High levels of recurring revenues from annual fee structure	New risk
TECHNOLOGY DISRUPTION	The Group could suffer operational disruption in the event of technology disruption such as a cyber-attack or hardware failure.	• Migration of key business applications into the Cloud as well as flexible provisioning allowing STM to scale up/down when needed • Office 365 implementation with the rollout of Teams for cloud collaboration and video conferencing • Creation of a Group wide 'virtual IT service desk'	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 24 of the financial statements	No change

LEADERSHIP

The Board is responsible to shareholders for the proper management and governance of the Group. It is responsible for strategic planning, business acquisitions and disposals, risk management, 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 governance and Board effectiveness. The Chief Executive is responsible for 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 adapt to 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 page 18 & 19.

The Non-Executive Directors provide strong, independent oversight and challenge 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.

The profiles of the individual board members can be viewed on page 18 & 19. All members of the Board have relevant experience which they bring to the business.

The Board comprises 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 oversee and challenge the Group's strategy. The Company fully supports and funds any training, formal or otherwise, that is required by any individual Board member so as to ensure that their knowledge and experience remains relevant and effective.

A formal evaluation of Board effectiveness will be carried out in 2020.

CULTURE

The Board promotes a 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 and form the backbone of our Code of Conduct policy. Our long-term growth expectations are underpinned by the principles within this Code of Conduct.

The Group promotes a 'customer first' which is at the heart of the decision making process, aligned to a positive and pro-active relationship with our stakeholders.

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

GOVERNANCE

The Board comprises three Executive and four independent Non-Executive Directors (including the Chairman). The independence of Directors is assessed periodically as part of the Board evaluation process. All Non-Executive Directors have been appointed from outside the STM Group, and are considered independent as defined by the Code.

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 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. Succession planning is carried out by the Board. The Audit & Risk Committee comprises Malcolm Berryman (Chairman), Robin Ellison and Graham Kettleborough. The Remuneration Committee comprises all the Non-Executive Directors, with Malcolm Berryman as Chairman.

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 and at such other times as the Chairman of the Audit & Risk Committee sees fit. The Chairman of the Audit & Risk Committee is appointed by the Board.

The Audit & Risk Committee reviews the Group's risk appetite and risk 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 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 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;
- determine individual remuneration packages including bonuses, incentive payments, share options and any other benefits;
- determine the contractual terms on termination and individual termination payment;
- be informed of and advise on changes in benefit structures in the Group; and
- agree the policy for approving expense claims of the Chief Executive and the Chairman of the Board.

The 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.

Meeting attendance for the year ended 31 December 2019 was:

DIRECTOR	Board Attended	Audit & Risk Committee Attended	Remuneration Committee Attended
Duncan Crocker	13/13	—	5/5
Alan Kentish	13/13	—	—
Therese Neish	13/13	—	—
Pete Marr[1]	10/12	—	—
Malcolm Berryman	13/13	4/4	5/5
Robin Ellison	12/13	3/4	5/5
Graham Kettleborough	12/13	4/4	5/5

1. Pete Marr was appointed on 30 January 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STM GROUP PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. 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 2019 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 and as applied to and 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 30.

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 applied in accordance with the provisions of the Isle of Man Companies Act 2006.

2. 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 auditor's 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.

3. SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS

The key audit matters that we identified in the current year were:

- Carey acquisition alignment to Group revenue recognition accounting policy
- Insurance technical reserve
- Valuation of Carey client portfolios
- Call options valuations
- Impact of COVID-19 subsequent event

Within this report, key audit matters are identified as follows:

! Newly identified

◇ Similar level of risk

MATERIALITY

The materiality that we used for the group financial statements was £220,000 which was determined on the basis of normalised profit before taxation.

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 specified audit procedures in respect of the two Spanish entities (STM Nummos) which, although not financially significant, did present specific audit risks which needed to be addressed. The components within the scope of our audit procedures account for 99% of the group's revenue and 99% of profit before taxation.

SIGNIFICANT CHANGES IN OUR APPROACH

During the year the Group has seen several changes to the business and environment it operates in. Changes to lease accounting through IFRS 16 and the acquisition of the Carey Pensions entities has had a significant impact on the Group and the results for the year ended 2019.

We have identified additional key audit matters in relation to the valuation of the Carey SIPP portfolio and the Carey call options valuations.

In our audit for the year ended 31 December 2018 we considered the recoverability of trade debtors and accrued income a key audit matter. These have not been considered key audit matters given our experience and knowledge of the balances. There have not been any significant changes to the processes around or composition for the account balances. We also considered the acquisition of Harbour as a key audit matter for the year ended 31 December 2018. The acquisition was completed during 2018 and therefore not deemed a relevant key audit matter in the current year. Our key audit matters have been focused around the Carey Pensions entities acquisition.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STM GROUP PLC

4. 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.

5. 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.

5.1. CAREY ACQUISITION ALIGNMENT TO GROUP REVENUE RECOGNITION ACCOUNTING POLICY

KEY AUDIT MATTER DESCRIPTION

As part of the acquisition of the Carey Pensions entities, as disclosed in Note 6 to the financial statements, a detailed review of the revenue recognition policy of these entities was performed which resulted in a fair value adjustment of £606k to deferred income on acquisition to align the accounting policy of Carey Pensions UK LLP with the one for the Group. Prior to acquisition the Carey Pensions entities recognised revenue evenly over the period of service. As disclosed on Note 3 the Group 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 current treatment of these fees, based on the existing profile of the client portfolio, is to recognise 50% at the time of invoicing and to defer the balance over the year of each policy as each of the performance obligations are satisfied.

Our significant area of focus was management's method of measuring satisfaction of performance obligations in order to recognise revenue over time for implementation of the Group's revenue recognition acounting policy for Carey Pensions UK LLP. Due to the judgements applied we considered this an area susceptible to fraud.

We have identified additional key audit matters in relation to the valuation of the Carey SIPP portfolio and the Carey call options valuations.

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

We have obtained an understanding of the key controls which management performs in relation to the revenue recognition alignment process. We have compared samples of the client contracts and the standard terms and conditions from the Carey entities to those in the other pension administration subsidiaries and noted that there were no significant differences in the contract terms that would affect the accounting conclusions.

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

We have tested the underlying reports and records 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 monthly.

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 is appropriate.

5.2 INSURANCE TECHNICAL RESERVE

KEY AUDIT MATTER DESCRIPTION

The Group has two Gibraltar life assurance subsidiaries STM Life Assurance PCC Plc ("STM Life") and London & Colonial Assurance PCC Plc ("LCA"). LCA released the full amount of their insurance technical reserve of £946k during the year as a result of a change in valuation methodology adopted where the unit-linked annuities are now treated as one homogeneous. The insurance technical reserve is deemed an area of judgement in Note 2d, "Use of judgements and estimates".

Our key audit matter was pinpointed to the judgements made by management related to the change in methodology. Due to the judgements applied we consider this an area susceptible to fraud.

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

We have obtained an understanding 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 model 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 the model used by the client by testing the mechanical accuracy of the model, assessing the appropriateness of changes made to the model and performing a recalculation of the reserve.

KEY OBSERVATIONS

Based on the audit procedures we have concluded the change in methodology are appropriate and that the insurance technical reserve recorded appears reasonable.

5.3. VALUATION OF CAREY CLIENT PORTFOLIOS

KEY AUDIT MATTER DESCRIPTION

As disclosed in Note 6 to the financial statements the Group acquired Carey Administration Holdings Limited ("CAHL") on 12 February 2019, which owns 70% of Carey Pensions UK LLP ("CPUK") and 80% of Carey Corporate Pensions UK Limited ("CCPUK") for consideration of £339k.

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 portfolios of CPUK and CCPUK were valued at £1.2m and £700k respectively. The CPUK portfolio has been valued using an excess earnings model which includes a number of significant assumptions around attrition rate, new business share and integration cost savings. The CCPUK portfolio has been valued based on the offers made by other potential buyers.

Our key audit matter was pinpointed to our significant risk over the valuation of the client portfolio on the integration cost savings assumptions as part of the entity's valuation of the CPUK SIPP client portfolio as this was deemed to be the most sensitive assumption. Given the significance of judgements and assumptions within the valuation model we consider this an area susceptible to fraud.

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

We have obtained an understanding of the key controls which management performed in relation to client portfolio valuation. We have obtained and reviewed the terms of the purchase agreement to corroborate the consideration payable of £339k. The completion accounts for the Carey entities statements were inspected to corroborate the value of the net liabilities on acquisition.

In respect of the CPUK portfolio we tested the accuracy and completeness of the data used in the calculations in determining the fair value of the client portfolio. This involved the following:

- Inspection of actual costs incurred and expected savings to date with regards to the integration of Carey into STM Group.
- Challenge of forecasts and integration costs/benefit savings by analysing performance and data from date of acquisition, and review of the ongoing integration projects.

We involved Deloitte valuation specialists to assess the valuation methodologies for each portfolio. We also involved our Deloitte business valuation specialists to review the methodology used to determine the discount rate and challenge the rate used by STM by performing an independent calculation.

In addition, we challenged the assumptions applied based on the observed consideration to revenue metrics seen on other acquisitions within the pensions sector.

KEY OBSERVATIONS

Based on our audit procedures we have concluded that client portfolios have been appropriately valued and the discount rate applied is within our acceptable range.

5.4. CALL OPTIONS VALUATIONS

KEY AUDIT MATTER DESCRIPTION

As disclosed in Note 6 to the financial statements, as part of the acquisition of CAHL, the Group entered into call option agreements to acquire the non controlling interests in CPUK and CCPUK from the current owner of the NCIs.

The call options are exercisable in 2022 and the prices will be based on the audited financial statements for these entities for the year ended 31 December 2021. The fair value of the call options as at acquisition date was determined at £416k using discounted cashflow techniques as no observable market transactions are available. Several key assumptions were included around future growth rates in respect of revenue and expenses as well as the discount rate applied.

Our key audit matter was pinpointed to the revenue and expenses growth assumptions across the two valuations, given its degree of judgement and estimation.

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

We have obtained an understanding of the key controls which management performed in relation to call options valuation. We involved our Deloitte complex pricing specialists to determine the reasonableness of the approach and method used to value the call options. We also involved our Deloitte valuation specialists to review the methodology used to determine the discount rate and challenge the rate used by STM by performing an independent calculation of the call option values.

We reviewed and challenged management's assumptions on the valuation of the call options, with particular focus on:

- The growth assumption within the expected exercise price used as part of the discounted cashflow model.
- The appropriateness of the revenue growth rate, costs growth rate and discount rates on the calculation on the NCI value.

We tested the underlying data used to produce the future forecasts based on the actual growth in revenue and expenses seen during recent years including the period since acquisition and post year end.

Additionally, we tested the accuracy and completeness of the data used in the calculations in determining the expected exercise price of the call options, and the value of the NCI at the exercise date. The following procedures were performed:

- Review of actual performance and costs to date for CPUK and CCPUK.
- Challenge of forecasts and significant assumptions by analysing performance and data from date of acquisition, and benchmarking against peers of CPUK and CCPUK.

KEY OBSERVATIONS

Based on the audit procedures we have concluded the methodology and assumptions applied are appropriate and that the value of the call options recorded appears reasonable.

5.5. IMPACT OF COVID-19 SUBSEQUENT EVENT

KEY AUDIT MATTER DESCRIPTION

As disclosed in Note 30, subsequent to the balance sheet date and up to the point of reporting there has been a global pandemic of a new strain of Coronavirus (COVID-19). The virus, and responses taken by organisations and governments to manage its spread in markets to which the Group and company is exposed, have led to increased volatility and economic disruption.

The matter is a non-adjusting event since it is indicative of conditions that arose after the reporting period. Management has ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date.

Subsequent to the year end management has performed additional procedures, at a group and component level, to assess the financial and operational impacts of COVID-19 which include:

- Detailed review of the projected FY 2020 financial performance and forecasted cash flows under stress scenarios to assess the financial resilience of the Group and underlying subsidiaries;
- Frequent monitoring of the Group's liquidity and cash flows through regular management meetings;
- Acceleration of pipeline IT projects to allow for more efficient remote working across the Group and better monitor and manage the continuing operations;
- An assessment of operational resilience, challenging internal control and governance and critical business functions; and
- Assessment of the forward looking assumptions associated to significant judgements in the financial statements such as goodwill impairment and valuation of the call options.

Management's assessment of the impact of COVID-19 on the Group's financial prospects has focussed on the level of recurring revenues that are expected to be maintained, the Group's cash position and its operational resilience.

Having considered the results of the activities described above, management believes that the group and the company continues to be a going concern due to having appropriate plans to manage liquidity and operational risks. The group and company have made disclosures throughout the annual report and financial statements to reflect the results of its assessment, in line with applicable accounting standards. Due to the inherent management judgement in, and the increased level of audit effort focused on the appropriateness of, the financial statements disclosures, we considered these to be a key audit matter. Refer to management's disclosure in Notes 2b and 30 of the financial statements. Further detail is included on page 9 of the Strategic Report.

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

We assessed management's approach to the impact of COVID-19 on the Group and the financial statements by performing the following procedures:

- Evaluated management's stress and scenario testing and challenged management's key assumptions considering its consistency with other available information and our understanding of the business;
- Evaluated management's assessment of the risks facing the Group including liquidity risk and operational matters;
- Challenged group, and divisional management around the assessment performed around the impact of COVID-19 at each location; and
- Assessed the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the Group based on our audit.

KEY OBSERVATIONS

Based on the work performed and the evidence obtained, we consider the disclosure of the potential impact of COVID-19 in the financial statements to be appropriate.

6. OUR APPLICATION OF MATERIALITY

6.1 MATERIALITY

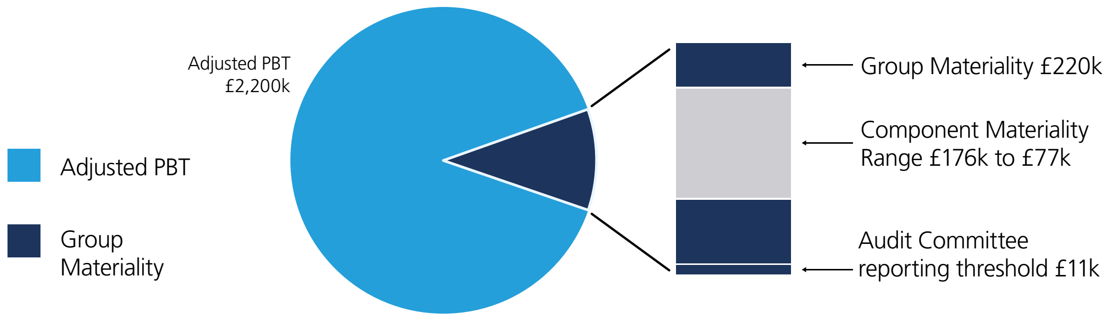
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our 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	£220,000 (2018: £390,000)	£176,000 (2018: £351,000)
BASIS FOR DETERMINING MATERIALITY	10% of profit before taxation adjusted for the gain on bargain purchase of £1.7m.	3% of net assets capped at 70% of Group materiality.
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 0.95% of revenue and 0.45% of equity. 10% of profit before taxation was taken as this is consistent with the other benchmarks considered. Profit before taxation was adjusted for the gain on bargain purchase as this is considered a one off transaction linked to the acquisition of the Carey entities and not reflective of the underlying performance of the Group.	The entity has limited transactions and is a holding company, hence we consider net assets as the most appropriate benchmark.

6. OUR APPLICATION OF MATERIALITY (CONTINUED)

6.1 MATERIALITY (CONITINUED)



6.2. PERFORMANCE MATERIALITY

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- Whether there were any significant changes in the business; and
- Prior year uncorrected and corrected misstatements and the likelihood of errors occurring based on previous experience.

6.3. ERROR REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £11,000 (2018: £19,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

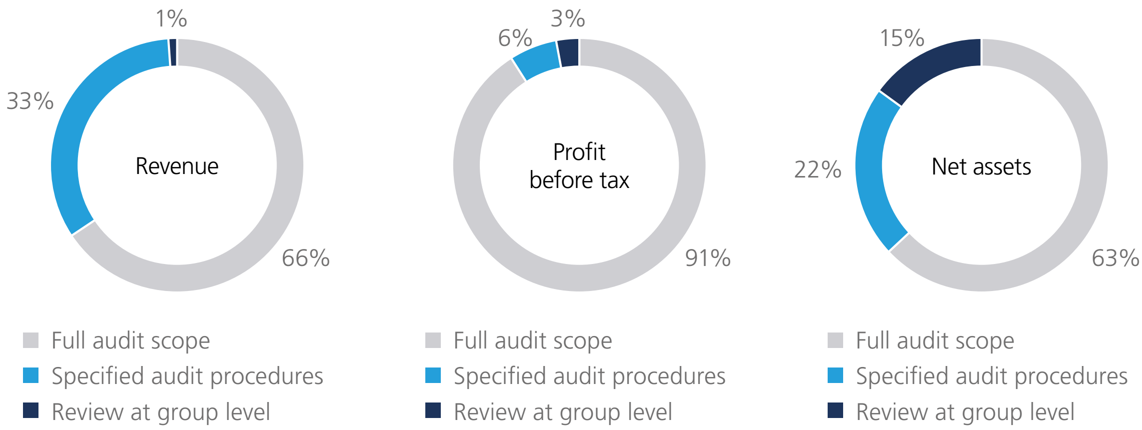
7.1. IDENTIFICATION AND SCOPING OF COMPONENTS

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. A combination of full scope audits and specific balance audits were performed over the significant legal entities covering the main trading jurisdictions, namely the regulated and trading entities in Gibraltar, Jersey, Malta and the UK. Analytical procedures were also performed on trading entities in Spain. Combined, these entities represent 99% of revenues and 99% of profit before tax. The Group audit team approved component materiality levels, which ranged from £77,000 to £176,000 (2018: £156,000 to £351,000) having regard to the mix of size and risk profile of the Group across the components.

7.2. WORKING WITH OTHER AUDITORS

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 Malta component during the year which is one of the Group's main operating jurisdictions.

Various telephone conference meetings were also held with the auditors in all the jurisdictions. The Group audit team 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 the Group audit team also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STM GROUP PLC

8. 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 auditor's 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.

9. RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, 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.

10. AUDITOR'S 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 auditor's 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 auditor's report.

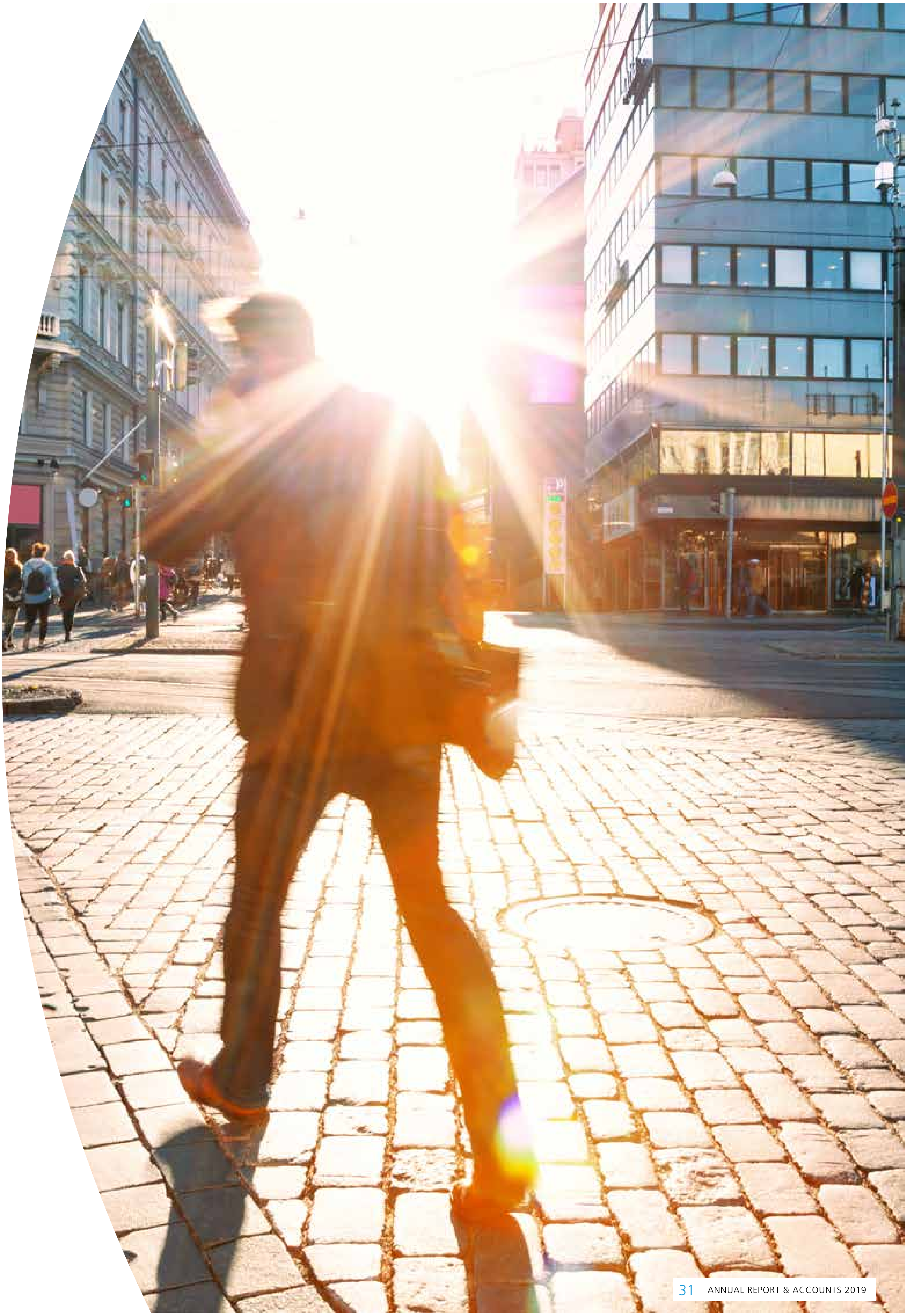
11. USE OF OUR REPORT

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Heaton

David Heaton

For and on behalf of **Deloitte LLP**
Douglas, Isle of Man
27 April 2020



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year from 1 January 2019 to 31 December 2019

	Notes	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
REVENUE	9	23,251	21,401
Administrative expenses	10	(19,776)	(16,692)
Profit before other items	11	**3,475**	4,709
OTHER ITEMS			
Bargain purchase gain	6	1,702	—
Gains from financial instruments at FVTPL	6	416	—
Finance costs		(325)	(249)
Depreciation and amortisation	14, 15	(1,345)	(427)
Profit before taxation		**3,923**	4,033
Taxation	13	(520)	(350)
Profit after taxation		**3,403**	3,683
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		(97)	3
Total other comprehensive (loss)/income		(97)	3
Total comprehensive income for the year		**3,306**	3,686
Profit attributable to:			
Owners of the Company		3,756	3,686
Non-Controlling Interests		(353)	—
		3,403	3,686
Total comprehensive income attributable to:			
Owners of the Company		3,659	3,686
Non-Controlling Interests		(353)	—
		3,306	3,686
Earnings per share basic (pence)	21	5.73	6.20
Earnings per share diluted (pence)	21	**5.64**	5.90

The above results relate to both continuing and discontinued activities. Discontinued activities in the year are disclosed in Note 5.
The Notes on pages 37 to 62 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 £000	31 December 2018 £000
ASSETS			
Non-current assets			
Property, plant and equipment	14	2,953	1,096
Intangible assets	15	20,488	18,966
Financial assets	6	416	—
Deferred tax asset		92	—
Total non-current assets		**23,949**	20,062
Current assets			
Investments	16	—	74
Accrued income		1,186	787
Trade and other receivables	17	5,765	6,281
Cash and cash equivalents	18	18,406	17,267
Total current assets		**25,357**	24,409
Total assets		**49,306**	44,471
EQUITY			
Called up share capital	19	59	59
Share premium account	19	22,372	22,372
Retained earnings		12,536	10,881
Other reserves		(446)	(250)
Equity attributable to owners of the Company		**34,521**	33,062
Non-controlling interest		**(275)**	—
Total equity		**34,246**	33,062
LIABILITIES			
Current liabilities			
Liabilities for current tax		1,083	908
Trade and other payables	22	11,634	10,501
Total current liabilities		**12,717**	11,409
Non-current liabilities			
Other payables	23	2,343	—
Total non-current liabilities		2,343	—
Total liabilities and equity		**49,306**	44,471

The Notes on pages 37 to 62 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 27 April 2020 and were signed on its behalf by:

AR Kentish
Chief Executive Officer

TG Neish
Chief Financial Officer

27 April 2020

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 £000	31 December 2018 £000
ASSETS			
Non-current assets			
Property, plant and equipment	14	283	330
Intangible assets	15	260	266
Financial assets	6	416	—
Investments	16	21,030	21,092
Total non-current assets		**21,989**	21,688
Current assets			
Trade and other receivables	17	9,873	10,387
Cash and cash equivalents	18	2,273	884
Total current assets		**12,146**	11,271
Total assets		**34,135**	32,959
EQUITY			
Called up share capital	19	59	59
Share premium account	19	22,372	22,372
Retained earnings		2,982	1,629
Other reserves		162	144
Total equity attributable to equity shareholders		**25,575**	24,204
LIABILITIES			
Current liabilities			
Trade and other payables	22	8,560	8,755
Total current liabilities		**8,560**	8,755
Non-current liabilities			
Other payables		—	—
Total non-current liabilities		—	—
Total liabilities and equity		**34,135**	32,959

The Notes on pages 37 to 62 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 27 April 2020 and were signed on its behalf by:

AR Kentish
Chief Executive Officer

TG Neish
Chief Financial Officer

27 April 2020

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year from 1 January 2019 to 31 December 2019

	Notes	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
OPERATING ACTIVITIES			
Profit for the year before tax		3,923	4,033
ADJUSTMENTS FOR:			
Depreciation of property, plant and equipment	14	773	220
Amortisation of intangible assets	15	572	205
Write-off of intangible assets	15	71	—
Loss on sale of fixed asset		5	—
Taxation paid		(345)	(515)
Bargain purchase gain	6	(1,702)	—
Unrealised gains on financial instruments at FVTPL	6	(416)	7
Share based payments		18	55
Decrease/(increase) in trade and other receivables	6,17	827	(437)
(Increase)/decrease in accrued income		(301)	103
Decrease in trade and other payables	6,22	(326)	(1,068)
Net cash from operating activities		**3,099**	2,603
INVESTING ACTIVITIES			
Disposal of investments		74	—
Purchase of property, plant and equipment	6,14	(117)	(60)
Increase in intangible assets	15	(160)	(185)
Consideration paid on acquisition of subsidiary	6,22	(350)	(800)
Cash acquired on acquisition of subsidiary	6	1,116	302
Net cash used in investing activities		**563**	(743)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank loans	22	1,200	—
Bank loan repayments	22	(1,650)	(1,650)
Lease liabilities paid		(745)	—
Treasury shares purchased		(117)	(206)
Dividends paid	19	(1,218)	(1,129)
Net cash from financing activities		**(2,530)**	(2,985)
Increase in cash and cash equivalents		**1,132**	(1,125)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Analysis of cash and cash equivalents during the year			
Increase in cash and cash equivalents		1,132	(1,125)
Effect of movements in exchange rates on cash and cash equivalents		7	29
Balance at start of year		17,267	18,363
Balance at end of year	18	**18,406**	17,267

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year from 1 January 2019 to 31 December 2019

	Share capital £000	Share premium £000	Retained earnings £000	Treasury shares £000	Translation reserve £000	Share based payments reserve £000	**Total £000**	**Non-Controlling Interests £000**	**Total Equity £000**
Balance at 1 January 2018	59	22,372	8,327	(226)	35	89	30,656	—	30,656
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD									
Profit for the year	—	—	3,683	—	—	—	3,683	—	3,683
Other comprehensive income									
Foreign currency translation differences	—	—	—	—	3	—	3	—	3
Transactions with owners, recorded directly in equity									
Dividend paid	—	—	(1,129)	—	—	—	(1,129)	—	(1,129)
Share based payments	—	—	—	—	—	55	55	—	55
Treasury shares purchased	—	—	—	(206)	—	—	(206)	—	(206)
At 31 December 2018 and 1 January 2019	**59**	**22,372**	**10,881**	**(432)**	**38**	**144**	**33,062**	**—**	**33,062**
Adjustment on initial application of IFRS 16 (net of tax) (Note 3v)	—	—	(883)	—	—	—	(883)	—	(883)
Adjusted balance at 1 January 2019	59	22,372	9,998	(432)	38	144	32,179	—	32,179
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD									
Profit for the year	—	—	3,756	—	—	—	3,756	(353)	3,403
Other comprehensive income									
Foreign currency translation differences	—	—	—	—	(97)	—	(97)	—	(97)
Transactions with owners, recorded directly in equity									
Dividend paid	—	—	(1,218)	—	—	—	(1,218)	—	(1,218)
Treasury shares purchased	—	—	—	(117)	—	—	(117)	—	(117)
Share based payments	—	—	—	—	—	18	18	—	18
Changes in ownership interest									
Acquisition of subsidiary with NCI (Note 6)	—	—	—	—	—	—	—	78	78
At 31 December 2019	**59**	**22,372**	**12,536**	**(549)**	**(59)**	**162**	**34,521**	**(275)**	**34,246**

STATEMENT OF COMPANY CHANGES IN EQUITY

	Share capital £000	Share premium £000	Retained earnings £000	Share based payments reserve £000	**Total £000**
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**
Balance at 1 January 2019	59	22,372	1,629	144	**24,204**
Profit for the year	—	—	2,571	—	2,571
Shares issued in year	—	—	—	—	—
Share based payments	—	—	—	18	18
Dividend paid	—	—	(1,218)	—	(1,218)
At 31 December 2019	**59**	**22,372**	**2,982**	**162**	**25,575**

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 2019 comprise the Company and its subsidiaries (see Note 29) (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. In addition the Directors have considered the current position, foreseeable risks and uncertainties facing the business, in particular the COVID-19 pandemic.

c. Functional and presentation 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. Foreign operations are included in accordance with the policies set out in Note 3b(ii).

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 - 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 2019 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 6 – valuation of acquired client portfolio and call options;

Note 25 – recognition and measurement of contingent liabilities: assumptions about the likelihood and magnitude of an outflow of resources;

Notes 4, 8 and 22 - insurance technical reserve: this is calculated based on key actuarial assumptions by the insurance companies' appointed independent actuary;

Note 15 - 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 ECL allowance for trade receivables and contract assets: key assumptions in determining lifetime expected 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 with the exception of Leases (see Note 3v).

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. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt. Any contingent consideration is measured at fair value at the date of acquisition and re-measured at each reporting date. Subsequent changes to the contingent consideration are adjusted against goodwill.

iii. Non-controlling interest (NCI)

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

iv. 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 9 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 current treatment of these fees, based on the existing profile of the client portfolio, is to recognise 50% at the time of invoicing and to defer the balance over the year of each policy as each of the performance obligations are satisfied.

d. Accrued income

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

e. Property, plant and equipment

i. Recognition and measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e. Property, plant and equipment (continued)

ii. Depreciation

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

The rates in use are as follows:

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

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

f. Financial instruments

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.

Derivative financial instruments are measured at FVTPL.

ii. Classification and subsequent measurement

Financial assets

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

Call options on non-controlling interests are classified as equity instruments if and only if an option contract is settled by delivering a fixed number of equity instruments in exchange for a fixed amount of cash or another financial asset (often referred to as the 'fixed-for-fixed' criterion). Otherwise, a call option is classified as a derivative financial instrument. The Group classifies its call options as derivative financial instruments.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f. Financial instruments (continued)

ii. Classification and subsequent measurement (continued)

Financial assets – Subsequent measurement and gains and losses

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 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. Leases

IFRS 16 Leases replaces the requirements in IAS 17 Leases and related interpretations, and is applicable for the first time for entities with an annual reporting period beginning on or after 1 January 2019. The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

h. Leases (continued)

This policy is applied to contracts entered into, on or after 1 January 2019

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future leases payments. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

Payments under operating leases were charged directly to the income statement on a straight line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expensed over the term of the lease.

An impact of adopting of the new standard on the consolidated financial statements of the Group is disclosed in Note 3v.

i. Employee benefits

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

j. Finance income and expenses

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

k. Income tax expense

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

Current tax is the expected tax payable on the taxable income for the year using enacted tax rates, updated for previous period adjustments. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k. Income tax expense (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

l. Intangible assets

i. Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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 which is 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.

m. Impairment

i. Non-derivative financial assets

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m. Impairment (continued)

i. Non-derivative financial assets (continued))

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.

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.

n. Earnings per share

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

o. Deferred income

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

p. Borrowing costs

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

q. Provisions

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

r. 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.

s. 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 20).

t. 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

u. 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.

v. Changes in significant accounting policies – IFRS 16

The Group initially adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduced a single, on balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right of-use assets representing its rights to use the underlying assets. In addition, it has recognised lease liabilities representing its obligation to make lease payments.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

The Group leases properties and IT equipment. As a lessee, the Group previously classified leases as operating leases. Under IFRS 16, however the Group recognises right-of-use assets and lease liabilities for most leases i.e. these leases are now on-balance sheet.

However, in line with IFRS 16 the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made.

On transition to IFRS 16, the Group has recognised right-of-use assets, lease liabilities and dilapidation costs with the difference being recognised in retained earnings. The impact on transition is summarised below.

	at 1 January 2019 £000
Right-of-use assets presented in property, plant and equipment	1,928
Deferred tax assets	98
Prepayments	(30)
Provision for dilapidation costs	100
Lease liabilities	2,779
Retained earnings	(883)

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

v. Changes in significant accounting policies – IFRS 16 (continued)

When measuring lease liabilities for those leases that were previously classified as operating leases, the Group discounted the lease payments using its incremental borrowing rate at 1 January 2019.

	at 1 January 2019 £000
Operating lease commitments on properties as disclosed in the 2018 consolidated financial statements under IAS 17	3,096
Operating lease commitments on IT equipment at 31 December 2018	105
Discounted using the incremental borrowing rate at 1 January 2019	2,842
Recognition of exemption for leases with less than 12 months of lease term or with the ability to be terminated with no penalties at transition	(57)
Recognition of exemption for leases of low-value	(6)
Lease liabilities recognised at 1 January 2019	**2,779**

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group has £1,968,000 of right-of-use assets and £2,685,000 of lease liabilities as at 31 December 2019.

Also, in relation to those leases under IFRS 16, the Group has charged depreciation and interest costs, rather than operating lease expenses. The Group recognised £531,000 of depreciation charges and £134,000 of interest expenses from these leases during the year ended 31 December 2019. The Group recognised £56,000 of expenses relating to short-term leases or leases that can be cancelled with no penalties and £4,000 of expenses for leases of low-value assets, excluding short-term leases of low-value assets, for the year ended 31 December 2019.

w. New standards and interpretations

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

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

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3);
- Amendments to IAS 1 and IAS 8: Definition of materiality: The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS.

In addition IFRS 17 Insurance Contracts is effective for annual periods beginning after 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. It outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. STM Group currently has two life assurance companies within its Group and therefore this may have an impact on the consolidated financial statements. At the time of signing the financial statements the Group was still assessing the impact of these standards on the consolidated financial statements and as such the extent of the impact has not yet been fully determined.

x. Cash and cash equivalents

Cash and cash equivalents include cash balances with banks and, demand and short term deposits which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in their fair value.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

y. Investment in subsidiaries

Investments in subsidiaries in the separate financial statements of STM Group Plc are accounted for at cost.

4. DETERMINATION OF FAIR VALUES

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

a. Intangible assets – goodwill

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

b. Property, plant and equipment

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

c. Long term business reserve

The long-term business 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 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 management using valuation techniques which seek to arrive at the price at which an orderly transaction would take place between market participants.

5. DISCONTINUED OPERATIONS

In March 2019, the Group closed down its insurance management business, STM Fidecs Insurance Management Limited. Management committed to a plan to cease trading for this part of the segment following an assessment of the viability of the insurance management business and its alignment with the Group's long term strategy to focus on its core activities.

This other services segment, of which the insurance management business was a part, was not previously classified as held-for-sale or as a discontinued operation.

Results of the discontinued operation are as follows:

	2019 £000	2018 £000
Revenue	179	362
Expenditure	(140)	(325)
Results from operating activities	39	37
Income tax	(3)	(4)
Results from operating activities, net of tax	36	33
Gain on sale of discontinued operation	—	—
Profit from discontinued operation	36	33
Basic earnings per share (pence)	0.0001	0.0001
Diluted earnings per share (pence)	0.0001	0.0001

The profit from the discontinued operation is attributable entirely to the owners of the Company. During the year the discontinued operation contributed £36,000 to the Group's net operating cashflows.

6. ACQUISITION OF SUBSIDIARY

On 12 February 2019, the Group acquired 100% of Carey Administration Holdings Limited ("CAHL"). CAHL in turn owns 70% of Carey Pensions UK LLP, offering SIPP administration products to the UK market, and 80% of Carey Corporate Pensions UK Limited, offering auto-enrolment workplace pensions solutions ("AE") to the UK based SMEs. The non-controlling interests ("NCI") of both entities are owned by Christine Hallett, who continues as Managing Director of the Carey Pensions businesses.

The acquisition of the SIPP business is highly complementary to the existing Group's business and strategy and will contribute to the growth of the UK focused business. In addition, the acquisition of the AE business enabled the Group to diversify its business by entering a new market which is at an early stage of its lifecycle providing the Group momentum for success. Taking control of CAHL will also benefit from cost synergies, economies of scale and an experienced management team that has been retained by the Group.

The acquisition has been accounted for using the acquisition method. Transaction costs incurred on the acquisition total £67,000 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	100
Second cash payment	200
Contingent consideration	39
Total consideration transferred	**339**

The initial cash payment was made at the date of signing the Sale & Purchase Agreement with the second cash payment made on the completion date. The contingent consideration is due on the first anniversary date following the completion of the acquisition and was dependent on standard indemnities provided by the Sellers.

The following table summarises the fair value of the identifiable assets and liabilities assumed of CAHL as at the date of the acquisition.

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Tangible fixed assets	19	—	19
Intangible assets	105	—	105
Client portfolio acquired	1,900	1,900	—
ROU assets	90	90	—
Accrued income	98	—	98
Debtors	404	—	404
Cash at bank	1,116	—	1,116
Lease liabilities	(90)	(90)	—
Liabilities	(660)	—	(660)
Deferred income on annual fees	(540)	606	(1,146)
Deferred tax liabilities on client portfolio	(323)	(323)	—
Total identifiable assets	**2,119**	**2,183**	**(64)**

At acquisition the Group performed an exercise to identify the fair value of intangible assets acquired. As a result of that exercise, a client portfolio asset of £1,200,000 relating to the UK SIPP business and £700,000 related to the AE business were recognised.

The SIPP portfolio has been valued using an excess earnings model which disregards future growth of the acquired portfolio but takes into consideration cost synergies achieved following the integration of the businesses. The AE business has been valued using the market approach.

The assumptions used for the valuation of the SIPP client portfolio were as follows:

Attrition rate	7% - 13%
Cost synergies (specific to the acquired portfolio)	£400,000
Discount factor	13%

A movement of +/- 1% on the above assumptions results in a range of values of £1,132,000 to £1,283,000.

6. ACQUISITION OF SUBSIDIARY *(continued)*

In addition, following a detailed review of the revenue recognition policy for the Carey Pensions businesses, the Group made a fair value adjustment of £606,000 to deferred income to align the accounting policy for the SIPP business with the one for the Group, which complies with IFRS 15. In respect to the remaining balances, the Group determined that the fair value of the identifiable assets and liabilities assumed was equal to the carrying value.

From the date of acquisition CAHL has generated revenue of £2,231,000 and incurred a loss of £1,266,000. If the acquisition had occurred on 1 January 2019, management estimates that consolidated revenue would have been £3,225,000 and consolidated loss would have been £779,000 due to the fair value adjustment to align the revenue recognition policy of £606,000.

A bargain purchase gain has arisen as a result of the previous majority shareholder's decision to exit the pension market and a reluctance to financially support these businesses further. This has resulted in the fair value of the identifiable net assets being higher than the consideration transferred as per below:

	£000
Total consideration transferred	339
NCI based on their proportionate interest in the recognised amounts of the assets and liabilities	78
Fair value of identifiable net assets	(2,119)
	(1,702)

The bargain purchase is attributable to the client portfolios acquired. Under IFRS 3, this needs to be recognised in the consolidated statement of comprehensive income for the period.

Call options to acquire non-controlling interests

As part of the acquisition of CAHL, the Group entered into call option agreements to acquire the non-controlling interests in Carey Pensions UK LLP and Carey Corporate Pensions UK Limited from the current owner of the NCIs. The call options are exercisable in 2022 and the prices are based on the audited financial statements for the year ended 31 December 2021. The fair value of the call options as at acquisition date was determined at £416,000 using discounted cashflow techniques as no observable market transactions are available. This is subject to revaluation as at each reporting date. No revaluation adjustment to the fair value of the options was required as at 31 December 2019.

The assumptions used for the valuations of the call options as at 31 December 2019 were as follows:

	Carey Pensions UK LLP	Carey Corporate Pensions UK
Income growth rate	2%	2%
Cost growth rate	4%	6%
Discount factor	13%	13%

A movement of +/- 1% on the above assumptions results in a range of values of £136,000 to £702,000.

7. 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	2019 £000	2018 £000
Pensions	14,074	11,555
Life Assurance	4,768	4,669
Corporate Trustee Services	3,662	4,185
Other Services	747	992
Total	**23,251**	21,401

7. SEGMENTAL INFORMATION *(continued)*

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

Geographical Segment	Turnover 2019 £000	2018 £000
Gibraltar	9,329	9,235
Malta	7,542	7,383
United Kingdom	3,964	1,585
Jersey	1,901	2,611
Other	515	587
Total	**23,251**	21,401

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 advisor and are segregated from the assets and liabilities of other clients. Therefore the Group considers that it does not control the investment decision nor 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 £23,251,000 (2018: £21,401,000) there is an amount of £4,768,000 (2018: £4,669,000) relating to revenues attributable to the life assurance businesses.

9. REVENUE

	31 December 2019 £000	31 December 2018 £000
Revenue from administration of assets	23,251	21,401
Total revenues	**23,251**	21,401

10. ADMINISTRATIVE EXPENSES

Included within administrative expenses are personnel costs as follows:

	31 December 2019 £000	31 December 2018 £000
Wages and salaries	11,180	8,888
Social insurance costs	502	428
Pension contributions	199	170
Share based payments	18	55
Total personnel expenses	**11,899**	9,541

Average number of employees

Group	31 December 2019 Number	31 December 2018 Number
Average number of people employed (including Executive Directors)	**268**	199

Company	31 December 2019 Number	31 December 2018 Number
Average number of people employed (including Executive Directors)	**23**	16

11. PROFIT BEFORE OTHER ITEMS

Profit before other items of £3,475,000 (2018: £4,709,000) was arrived at after charging the following to the income statement:

	31 December 2019 £000	31 December 2018 £000
Directors' remuneration	809	577
Auditor's remuneration for audit	367	296
Auditor's remuneration for non-audit services	—	227
Operating lease rentals*	—	707

* The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application (see Note 3v).

12. RECONCILIATION OF REPORTED TO UNDERLYING MEASURES

	REVENUE		PROFIT BEFORE OTHER ITEMS		PROFIT BEFORE TAX	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
REPORTED MEASURE	23,251	21,401	3,475	4,709	3,923	4,033
Less: release on technical reserve	(946)	(583)	(946)	(583)	(946)	(583)
Add/(less): adjustment due to revenue recognition policy changes on acquisition	606*	(300)	606*	(300)	606*	(300)
Less: bargain purchase gain on acquisition and gain on call options	–	–	–	–	(2,118)	–
Add: integration and acquisition costs	–	–	461	–	461	–
Add: costs of skilled person review on Gibraltar regulated entities	–	–	–	275	–	275
Add: other non-recurring costs	–	–	639	320	639	320
Underlying measure	22,911	20,518	4,235**	4,421	2,565	3,745

* As more fully disclosed in Note 6 an exercise was carried out following the acquisition of CAHL to align their accounting policies with the Group's which resulted in a pre-acquisition adjustment in CAHL's financial statements. This amount is not included in our consolidated reported measures but represents the revenue and profit that would have been obtained if STM Group Plc had had full ownership of CAHL for the full year.

** The Group initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated (see Note 3v). Like for like underlying Profit before other items for 2019 would have been £3,570,000.

Underlying measures are net of non-recurring costs and other exceptional items including bargain purchase gains and technical reserve releases that do not form part of the normal course of business.

13. TAXATION

	31 December 2019 £000	31 December 2018 £000
Current tax expense	536	350
Release of deferred tax assets on leases as per IFRS 16	12	—
Release of deferred tax liabilities on acquired client portfolios	(28)	—
Total tax expense	**520**	350

RECONCILIATION OF EXISTING TAX RATE	2019	31 December 2019 £000	2018	31 December 2018 £000
Profit before tax for the year		3,923		4,033
Income tax using the Company's domestic rate	**0.00%**	—	0.00%	—
Effect of tax rates in other jurisdictions	13.67%	536	8.68%	350
Release of deferred tax assets on leases as per IFRS 16	0.31%	12	—	—
Release of deferred tax liabilities on acquired client portfolios	(0.72%)	(28)	—	—
Total tax expense		**520**		350
Effective tax rate (%)		**13.26%**		8.68%

14. PROPERTY, PLANT AND EQUIPMENT

GROUP	Motor Vehicles £000	Office Equipment £000	Leasehold Improvements £000	Right-of-use Assets £000	Total £000
COSTS					
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**
As at 1 January 2019	15	2,130	641	—	2,786
Recognition of right-of-use assets on initial application of IFRS 16	—	—	—	5,151	5,151
Adjusted balance at 1 January 2019	15	2,130	641	5,151	7,937
Acquired through business combination	—	19	—	90	109
Additions	—	117	—	481	598
Disposals	—	(167)	—	—	(167)
As at 31 December 2019	**15**	**2,099**	**641**	**5,722**	**8,477**
DEPRECIATION					
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**
As at 1 January 2019	8	1,354	328	—	1,690
Recognition of right-of-use asset on initial application of IFRS 16	—	—	—	3,223	3,223
Adjusted balance at 1 January 2019	8	1,354	328	3,223	4,913
Charge for the year	2	187	53	531	773
Disposals	—	(162)	—	—	(162)
As at 31 December 2019	**10**	**1,379**	**381**	**3,754**	**5,524**
Net Book Value					
As at 31 December 2018	7	776	313	—	1,096
As at 31 December 2019	**5**	**720**	**260**	**1,968**	**2,953**

COMPANY	Office Equipment £000
COSTS	
As at 1 January 2018	723
Additions at cost	10
Disposals	—
As at 31 December 2018	**733**
As at 1 January 2019	733
Additions at cost	1
Disposals	—
As at 31 December 2019	**734**
DEPRECIATION	
As at 1 January 2018	354
Charge for the year	49
Disposals	—
As at 31 December 2018	**403**
As at 1 January 2019	403
Charge for the year	48
Disposals	—
As at 31 December 2019	**451**
Net Book Value	
As at 31 December 2018	330
As at 31 December 2019	**283**

15. INTANGIBLE ASSETS

GROUP	Goodwill £000	Client Portfolio £000	Product Development £000	IT Development Costs £000	Total £000
COSTS					
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**
Balance as at 1 January 2019	16,490	2,342	586	185	19,603
Acquired through business combination	—	1,900	—	105	2,005
Additions	—	—	27	133	160
Balance at 31 December 2019	**16,490**	**4,242**	**613**	**423**	**21,768**
AMORTISATION AND IMPAIRMENT					
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**
Balance as at 1 January 2019	—	274	351	12	637
Charge for the year	—	400	34	138	572
Write-off intangibile assets/adjustments	26	—	45	—	71
Balance at 31 December 2019	**26**	**674**	**430**	**150**	**1,280**
CARRYING AMOUNTS					
At 31 December 2018	16,490	2,068	235	173	18,966
At 31 December 2019	**16,464**	**3,568**	**183**	**273**	**20,488**

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 2019, 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 2019	**15,439**	**48**	**977**	**16,464**

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 for a year. The following four years cashflows have then been calculated based on growth rates as detailed below. As goodwill is considered to have an indefinite life the year 5 net cashflow has then been extrapolated to perpetuity. A post-tax discount rate of 13% has been used in discounting the projected cash flows. The sensitivities applied for turnover growth range between 0% and 5% for the various CGUs and have been arrived at using past experience and knowledge of the various markets and internal strategies for each CGU. Similarly for expenses a growth rate of 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.

15. INTANGIBLE ASSETS *(continued)*

Client portfolio

Client portfolio represents the value assigned to the individual client portfolios acquired through the acquisition of London & Colonial Holding Ltd in 2016, Harbour Pensions Ltd in 2018, CAHL in 2019 and the BUPA portfolio. The Group's client portfolios are amortised over the useful life which has been determined to be ten years.

COMPANY	Product Development £000	IT Development Costs £000	Total £000
COSTS			
Balance as at 1 January 2018	367	—	367
Additions	—	51	51
As at 31 December 2018	**367**	51	**418**
Balance as at 1 January 2019	367	51	418
Additions	20	63	83
As at 31 December 2019	**387**	**114**	**501**
AMORTISATION AND IMPAIRMENT			
Balance as at 1 January 2018	112	—	112
Charges for the year	36	4	40
As at 31 December 2018	**148**	**4**	**152**
Balance as at 1 January 2019	148	4	152
Charges for the year	34	10	44
Write-off of intangible assets	45	—	45
As at 31 December 2019	**227**	**14**	**241**
CARRYING AMOUNTS			
As at 31 December 2018	219	47	266
As at 31 December 2019	**160**	**100**	**260**

16. INVESTMENTS

Group – Other investments

Investments of £74,000 in a discretionary portfolio managed by SG Hambros as at 31 December 2018 were realised during the year.

These investments were classified as Level 2 as their value was based on significant other observable inputs available.

Company – Investments in subsidiaries

ACQUISITIONS OF THE COMPANY	31 December 2019 £000	31 December 2018 £000
SHARES IN GROUP UNDERTAKINGS		
Balance at start of year	21,092	21,092
Struck off of dormant entities	(62)	—
Balance at end of year	**21,030**	21,092

17. TRADE AND OTHER RECEIVABLES

GROUP	31 December 2019 £000	31 December 2018 £000
Trade receivables	3,908	3,508
Prepayments	621	555
Other receivables	1,236	2,218
Total	**5,765**	6,281

COMPANY	31 December 2019 £000	31 December 2018 £000
Receivables due from related parties	9,009	9,153
Other receivables	864	1,234
Total	**9,873**	10,387

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 26.

18. CASH AND CASH EQUIVALENTS

GROUP	31 December 2019 £000	31 December 2018 £000
Bank balances	18,406	17,267
Cash and cash equivalents in the statement of cash flows	18,406	17,267
Bank loan (Note 22)	(1,200)	(1,650)
Net funds	**17,206**	15,617

COMPANY	31 December 2019 £000	31 December 2018 £000
Bank balances	2,273	884
Cash and cash equivalents in the statement of cash flows	2,273	884
Bank loan (Note 22)	(1,200)	(1,650)
Net funds	**1,073**	(766)

Within cash and cash equivalents held by the Group there is a balance of £4,287,000 which is not available for use by the Group.

19. CAPITAL AND RESERVES

AUTHORISED, CALLED UP, ISSUED AND FULLY PAID	31 December 2019 £000	31 December 2018 £000
59,408,088 ordinary shares of £0.001 each (2018: 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 1,089,780 (2018: 869,780) shares at 31 December 2019.

Share premium
There were no new shares issued during the years ended 31 December 2019 and 31 December 2018.

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

19. CAPITAL AND RESERVES *(continued)*

Dividends

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

	31 December 2019 £000	31 December 2018 £000
2.0 pence per qualifying ordinary share (2018: 1.9 pence)	**1,218**	1,129

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 2019 £000	31 December 2018 £000
0.75 pence per qualifying ordinary share (2018: 1.3 pence)	**446**	772

20. 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 would have paid 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 was 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 ended one month after the Company announced its 2018 financial results. At this point it was determined that the value created did not exceed the Threshold Price of 60p and therefore there was no payment made.

Under IFRS 2, the fair value of any award was determined at grant date and spread proportionally across the vesting period. The vesting date was 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 had a market based performance condition attached namely the share price threshold the accounting charge reflected 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 £18,000 (2018: £55,000).

21. EARNINGS PER SHARE

Earnings per share for the year from 1 January 2019 to 31 December 2019 is based on the profit after taxation of £3,403,000 (2018: £3,683,000) divided by the weighted average number of £0.001 ordinary shares during the year of 59,408,088 basic (2018: 59,408,088) and 60,365,759 dilutive (2018: 62,378,492) in issue.

A reconciliation of the basic and diluted number of shares used in the year ended 31 December 2019 is:

	31 December 2019	31 December 2018
Weighted average number of shares	59,408,088	59,408,088
Share incentive plan (Note 20)	957,671	2,970,404
Diluted	**60,365,759**	62,378,492

22. TRADE AND OTHER PAYABLES

GROUP	31 December 2019 £000	31 December 2018 £000
Deferred income	4,193	3,997
Trade payables	466	384
Bank loan	1,200	1,650
Lease liabilities	795	—
Contingent consideration	39	150
Insurance technical reserve	—	947
Other creditors and accruals	4,941	3,373
Total	**11,634**	10,501

COMPANY	31 December 2019 £000	31 December 2018 £000
Owed to related parties	6,983	6,634
Bank loan	1,200	1,650
Other creditors and accruals	377	471
Total	**8,560**	8,755

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 £4,193,000 as at 31 December 2019 (2018: £3,997,000).

During 2016 the Company took out a 3 year bank loan for £3.30 million which paid interest of 4% above LIBOR. The bank loan was interest only for the first year with quarterly repayments commencing in January 2018 and thus was fully repaid during 2019. In addition, during the year the Company took out a 1 year bank loan for £1.20 million with quarterly repayments which pays interest of 4% above LIBOR. Both these loans are secured by a capital guarantee provided by STM Fidecs Limited.

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

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

GROUP	31 December 2019 £000	31 December 2018 £000
Lease liabilities	1,889	—
Deferred tax liabilities	295	—
Other payables	159	—
Total	**2,343**	—

24. 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 £12,000 after tax (2018: £17,000).

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 £28,000 after tax (2018: £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 (£).

24. 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 22, 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 2019 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 2019 was as follows:

	31 December 2019 £000	31 December 2018 £000
Total liabilities	15,060	11,409
Less: cash and cash equivalents	18,406	17,267
Adjusted net debt	(3,346)	(5,858)
Total equity and adjusted equity	**34,521**	33,062
Adjusted net debt to adjusted equity ratio	**(0.10)**	(0.18)

25. CONTINGENT LIABILITY

As stated in Note 3q 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 advisors 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.

26. 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 2019 £000	31 December 2018 £000
Investments	—	74
Trade and other receivables	5,765	6,281
Cash and cash equivalents	18,406	17,267
Total	**24,171**	23,622

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 2019 and 31 December 2018.

Impairment on trade and other receivables is determined applying an ECL model as discussed in Note 3m.

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

	Gross receivables 31 December 2019 £000	**Individual impairment 31 December 2019 £000**	**Total £000**	Gross receivables 31 December 2018 £000	Individual impairment 31 December 2018 £000	Total £000
Not past due	1,641	—	1,641	1,171	—	1,171
Past due 0-30 days	801	—	801	862	—	862
Past due 31-120 days	322	—	322	398	—	398
More than 120 days past due	1,402	(258)	1,144	1,381	(304)	1,077
Total	**4,166**	**(258)**	**3,908**	3,812	(304)	3,508

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 2019 £000	31 December 2018 £000
Balance at start of year	304	294
Movement in bad debt allowance	76	86
Amounts written off	(75)	(49)
Amounts recovered	(47)	(27)
Balance at end of year	**258**	304

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.

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.

26. FINANCIAL INSTRUMENTS *(continued)*

Liquidity Risk (continued)

31 December 2019	Carrying amounts £000	Contractual cash flow £000	6 months or less £000	6-12 months £000	1-4 years £000
NON-DERIVATIVE FINANCIAL LIABILITIES					
Trade payables	466	466	466	—	—
Bank loan	1,200	1,237	525	712	—
Contingent consideration	39	39	39	—	—
Lease liabilities	2,684	2,893	438	438	2,017
Other creditors and accruals	4,941	4,941	4,941	—	—
Corporation tax payable	1,083	1,083	1,083	—	—
Total	**10,413**	**10,659**	**7,492**	**1,150**	**2,017**

31 December 2018	Carrying amounts £000	Contractual cash flow £000	6 months or less £000	6-12 months £000	1-4 years £000
NON-DERIVATIVE FINANCIAL LIABILITIES					
Trade payables	384	384	384	—	—
Bank loan	1,650	1,676	841	835	—
Contingent consideration	150	150	150	—	—
Other creditors and accruals	3,373	3,373	3,373	—	—
Corporation tax payable	908	908	908	—	—
Total	**6,465**	**6,491**	**5,656**	**835**	**—**

Fair value hierarchy

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

FINANCIAL ASSETS - CALL OPTIONS	31 December 2019 £000	31 December 2018 £000
Balance as at 1 January	—	—
Purchases	—	—
Total gains recognised in profit or loss	416	—
Balance as at 31 December	**416**	**—**

27. LEASES

Lease liabilities

Non-cancellable lease liabilities as per IFRS 16 are payable as follows:

	31 December 2019 £000	31 December 2018 £000
Less than one year	876	702
Between one year and five years	2,017	2,394
More than five years	—	—
Total	**2,893**	**3,096**

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 four years.

28. RELATED PARTIES

Transactions with key management personnel and Directors' compensation

Key management compensation comprised:

	31 December 2019 £000	31 December 2018 £000
Short term employee benefits	791	541
Share based payments	18	36
Total	**809**	**577**

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 2019 (2018: 12%).

The Group provided administration services to Gold Management Limited, a company partly owned by Louise Kentish, spouse of Alan Kentish, a Director of the Company. These services amounted to £7,508 for the period to 31 December 2019 (2018: £4,433), of which £nil was outstanding at 31 December 2019 (2018: £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 2019 the Group owed Fiander Properties Limited, a company related to the Group by virtue of common ownership, £44,000 (2018: £227,152).

The Company received dividends of £2,200,608 (2018: £2,615,006) from STM Malta Limited, £2,512,813 (2018: £550,000) from STM Fidecs Limited, £2,446,000 (2018: £2,664,500) from London & Colonial Holdings Limited and £nil from STM (Caribbean) Limited (2018: £600,000).

29. GROUP ENTITIES

Principal subsidiaries

As at 31 December 2019 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 2019	Ownership interest 31 December 2018	Activity
STM Fidecs 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	Services and Administration
London & Colonial (Trustee Services) Limited	Gibraltar	100% indirectly	100% indirectly	Administration of clients' assets
Carey Corporate Pensions UK Limited	England	80% indirectly	—	Administration of clients' assets
Carey Pensions UK LLP	England	70% indirectly	—	Administration of clients' assets

30. SUBSEQUENT EVENTS

The COVID-19 virus has not only created unprecedented times from a health and social perspective but has changed the economic landscape for the immediate future, and probably for significantly longer. It is difficult to assess the long term financial impact on the business community generally, however our business model of fixed annual fees should mean that our existing recurring annual revenue stream is largely protected from any significant downturn.

There is a small element of revenue that is dependant on an interest rate differential that will be at risk as a result of recent base rate changes made due to the pandemic as well as a small element of recurring fees that are directly correlated to the value of assets under administration. On current interest rates and depressed financial markets, we believe that there is likely to be a £0.4 million loss in existing recurring revenues against a 2019 recurring revenue total of £18 million. This represents an unaudited estimate of the likely impact to recurring revenue.

We have instigated contingency procedures within our various businesses, which has meant almost all of our STM colleagues now working from home so as to comply with the various Governments' advice, protect our colleagues as well as ensuring that we are able to maintain service levels to our customers.

Our expectations are that new business run-rates are likely to have a time-lag as a result of the COVID-19 lock-down measures implemented.

The Directors consider the emergence of COVID-19 as a pandemic during 2020, and the associated government measures in the jurisdictions in which the Group operates in response, as a non-adjusting post balance sheet event. There is also, a possible and potentially significant impact on the forward looking assumptions made in the various impairment reviews and fair value estimates. The specific areas which could be affected are the valuation of the goodwill for the Gibraltar cash generating unit and the valuation of the call options. These could be impacted as a result of lower than expected levels of new business, however, given the uncertainties at this time, this cannot be quantified at this stage as it is not possible to accurately estimate the impact of this on the valuations.

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 recently sold or transferred all of your shares in the Company, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

STM GROUP PLC
(the "Company")
NOTICE OF ANNUAL GENERAL MEETING

In light of the UK Government's guidance in force at the time of preparing this Notice in relation to the banning of gatherings and social distancing practice in response to COVID-19, **the Board requests that shareholders do not attend the Annual General Meeting ("AGM") in person**. Instead, voting will be carried out by proxy (a Form of Proxy is enclosed). Questions for the meeting may be submitted by email to cosec@stmgroupplc.com, to be received by 4pm on Tuesday, 16 June 2020. Questions and answers will be posted on the Company's website as soon as practicable following the conclusion of the meeting.

The Board considers that all of the resolutions set out in the notice of AGM are likely to promote the success of the Company and are in the best interests of both the Company and its shareholders as a whole. The Board recommends that shareholders vote in favour of all of resolutions.

Notice is hereby given that the AGM of the Company will be held on 17 June 2020 at 11:00 am at Rockwood House, 9-17 Perrymount Road, Haywards Heath, West Sussex, for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. To receive and adopt the Company's annual accounts for the financial year ended 31 December 2019, together with the Directors' Report and Auditor's Report.
2. To re-elect Duncan Crocker as a Director.
3. To re-elect Alan Kentish as a Director.
4. To re-elect Therese Neish as a Director.
5. To re-elect Pete Marr as a Director.
6. To re-elect Malcolm Berryman as a Director.
7. To re-elect Robin Ellison as a Director.
8. To re-elect Graham Kettleborough as a Director.
9. To reappoint Deloitte LLP as auditor.
10. To authorise the Directors to determine the auditor's remuneration.
11. THAT, the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ("Relevant Securities"):
    (a) up to a nominal amount of £19,802; and
    (b) comprising equity securities (as defined in section 560(1) of the Act) up to a nominal amount of £38,604 in connection with an offer by way of a rights issue to:
        i. ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
        ii. holders of other equity securities as required by the rights of those securities or, subject to such rights as the Directors otherwise consider necessary, and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

The authorities conferred on the Directors under paragraphs (a) and (b) to allot Relevant Securities shall expire at 6pm on 30 June 2021, or, if earlier, the conclusion of the next AGM of the Company to be held in 2021 unless previously revoked, varied or renewed by the Company in a general meeting.

The Company shall be entitled to make, prior to the expiry of such authorities, any offer or agreement which would or might require Relevant Securities to be allotted after the expiry of these authorities and the Directors may allot Relevant Securities pursuant to such offer or agreement as if these authorities had not expired.

All prior authorities to allot Relevant Securities shall be revoked but without prejudice to any allotment of Relevant Securities already made thereunder.

SPECIAL RESOLUTIONS

12. THAT, subject to the passing of resolution 11 in the notice of this meeting, the Directors are empowered pursuant to section 570 of the Companies Act 2006 to allot equity securities (as defined in section 560 of that Act) for cash, pursuant to the authority conferred on them by resolution 11 in the notice of this meeting or by way of sale of treasury shares, as if section 561 of that Act did not apply to any such allotment, provided that this power is limited to:

    (a) the allotment of equity securities in connection with any rights issue or open offer or any other pre-emptive offer that is open for acceptance for a period determined by the Directors to the holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares (and, if applicable, to the holders of any other class of equity security in accordance with the rights attached to such class), subject in each case to such exclusions or other arrangements as the Directors may deem necessary or appropriate in relation to fractions of such securities, the use of more than one currency for making payments in respect of such offer, any such shares or other securities being represented by depositary receipts, treasury shares, any legal or practical problems in relation to any territory or the requirements of any regulatory body or any stock exchange; and

    (b) the allotment of equity securities or sale of treasury shares (other than pursuant to sub-paragraph (a) above) to any person with an aggregate nominal value of £2,970.40, and shall expire when the authority conferred on the Directors by resolution 12 in the notice of this meeting expires or is revoked, save that, before the expiry of this power, the Company may make any offer or agreement which would or might require equity securities to be allotted after such expiry.

13. THAT, subject to the passing of resolution 11 in the notice of this meeting and in addition to the power contained in resolution 12 set out in the notice of this meeting, the Directors are empowered pursuant to section 570 of the Companies Act 2006 to allot equity securities (as defined in section 560 of that Act) to any person for cash, pursuant to the authority conferred on them by resolution 11 in the notice of this meeting or by way of sale of treasury shares, as if section 561 of that Act did not apply to any such allotment, provided that this power is:

    (a) limited to the allotment of equity securities up to an aggregate nominal value of £2,970.40; and

    (b) used only for the purposes of financing (or refinancing, if the power is to be exercised within six months after the date of the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of the notice of this meeting;

    and shall expire when the authority conferred on the Directors by resolution 11 in the notice of this meeting expires or is revoked, save that, before the expiry of this power, the Company may make any offer or agreement which would or might require equity securities to be allotted after such expiry.

14. THAT, the Company be generally authorised pursuant to section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of £0.001 each in the capital of the Company on such terms and in such manner as the Directors shall determine, provided that:

    (a) the maximum number of ordinary shares hereby authorised to be purchased is limited to an aggregate of 5,940,808 ordinary shares;

    (b) the minimum price, exclusive of any expenses, which may be paid for each ordinary share is its nominal value;

    (c) the maximum price, exclusive of any expenses, which may be paid for each ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company as derived from the AIM Appendix to the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which such share is contracted to be purchased;

    (d) this authority shall expire on 30 June 2021, or, if earlier, at the conclusion of the next AGM of the Company to be held in 2021 unless previously revoked, varied or renewed; and

    (e) the Company may make a contract to purchase ordinary shares under this authority prior to the expiry of this authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares pursuant to any such contract as if such authority had not expired.

Further information on resolutions 11 to 14 can be found in the Explanatory Notes on the next page.

By order of the Board

Alex Small LL.M ACG
Company Secretary
18 Athol Street, Douglas
Isle of Man, IM1 1JA

Company number: 005398V

29 April 2020

Notes:

1. Resolutions 1 to 11 are to be proposed as Ordinary Resolutions. Resolutions 12 to 14 are to be proposed as Special Resolutions 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.
2. A member who is entitled to attend and vote at the AGM is entitled to appoint another person, or two or more persons in respect of different shares held by him, as his proxy to exercise all or any of his rights to attend and to speak and to vote at the AGM. A proxy need not also be a member.
3. A member must be registered as the holder of ordinary shares by 11am on 15 June 2020 in order to be entitled to vote at the AGM as a member in respect of those shares.
4. A Form of Proxy is enclosed. Proxy forms must be returned by post or by hand to the office of the agent of the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Rd, Bristol BS99 6ZY not less than 48 hours before the time of holding of the meeting. Members who hold their shares in uncertificated form may also use the CREST voting service to appoint a proxy electronically.
5. CREST members can also appoint proxies by using the CREST electronic proxy appointment service and transmitting a CREST Proxy Instruction in accordance with the procedures set out in the CREST Manual.

Explanatory Notes: Resolutions 11, 12, 13 & 14

Resolution 11 – Authority to allot relevant securities

Resolution 11 is proposed to renew the Directors' powers to allot shares. The Directors' existing authority, which was granted (pursuant to section 551 of the Act) at the AGM held on 14 May 2019 and will expire at the end of this year's AGM. Accordingly, paragraph (a) of resolution 11 would renew this authority by authorising the Directors (pursuant to section 551 of the Act) to allot relevant securities up to an aggregate nominal amount equal to approximately one third of the current issued share capital of the Company.

In accordance with the Investment Association Share Capital Management Guidelines issued in July 2016, resolution 11(b) seeks to grant the Directors authority to allot ordinary shares equal to a further one third of the Company's issued share capital in connection with a rights issue in favour of ordinary shareholders.

The Directors have no present intention to exercise the authority sought under this resolution. In the event of any exercise of the authority, the Directors intend to follow the Guidelines concerning its use including as regards the Directors standing for re-election.

The authorities sought under paragraphs (a) and (b) of this resolution will expire at the conclusion of the AGM of the Company to be held in 2021, or at 6pm on 30 June 2021, whichever is sooner, unless renewed or revoked prior to such time.

Resolutions 12 and 13 – Disapplication of statutory pre-emption rights

Resolutions 12 and 13 are to approve the disapplication of pre-emption rights. The passing of these resolutions would allow the Directors to allot shares for cash and/or sell treasury shares without first having to offer such shares to existing shareholders in proportion to their existing holdings.

The authority under resolution 12 would be limited to:

(a) allotments or sales in connection with pre-emptive offers and offers to holders of other equity securities if required by the rights of those shares or as the Board considers necessary; and

(b) allotments or sales (otherwise than pursuant to (a) above) up to an aggregate nominal amount of £2,970.40, being an amount equal to approximately 5% of the current issued share capital of the Company as at 29 April 2020 (being the latest practicable date prior to the publication of this Notice).

Resolution 13 would give the Directors authority to allot a further 5% of the issued ordinary share capital of the Company as at 29 April 2020 (being the latest practicable date prior to the publication of this Notice) for the purposes of financing a transaction which the Directors determine to be an acquisition or other capital investment contemplated by the Pre-Emption Group's Statement of Principles most recently published by the Pre-Emption Group prior to the date of this Notice.

The disapplication authorities under resolutions 12 and 13 are in line with guidance set out in the Pre-Emption Group's Statement of Principles. The Pre-Emption Group's Statement of Principles allow a board to allot shares for cash otherwise than in connection with a pre-emptive offer (i) up to 5% of a company's issued share capital for use on an unrestricted basis and (ii) up to a further 5% of a company's issued share capital for use in connection with an acquisition or specified capital investment announced either contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

The authorities contained in resolutions 12 and 13 will expire at the conclusion of the AGM of the Company to be held in 2021 or at 6pm on 30 June 2021, whichever is sooner.

Resolution 14 – Authority to purchase Company's own shares

Resolution 14 seeks to grant the Directors authority (until 30 June 2021 or, if earlier, the next AGM to be held in 2021, unless such authority is revoked or renewed prior to such time) to make market purchases of the Company's own ordinary shares, up to a maximum of 5,940,808 ordinary shares, being an amount equal to approximately 10% of the current issued share capital of the Company. The maximum price payable would be an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company for the five business days immediately preceding the date of purchase and the minimum price would be the nominal value of the shares.

The Directors have no present intention of exercising the authority to make market purchases, however the authority provides the flexibility to allow them to do so in the future. The authority will only be exercised in circumstances where the Directors expect that such purchases will result in an improvement in earnings per share and will be in the best interests of shareholders generally.

Board Recommendation

The Directors believe that the resolutions being proposed and described above are in the best interests of the Company and its shareholders as a whole and recommend you to give them your support by voting in favour of all the resolutions, as they intend to in respect of their own beneficial shareholdings.

COMPANY INFORMATION

CORPORATE

Directors

Duncan Crocker
Non-Executive Chairman

Alan Kentish ACA ACII AIRM
Chief Executive Officer

Therese Neish BA (Hons) FCCA
Chief Financial Officer

Pete Marr MCMI
Chief Operating Officer

Malcolm Berryman
Non-Executive Director

Graham Kettleborough
Non-Executive Director

Robin Ellison
Non-Executive Director

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STM GROUP PLC

Annual Report & Accounts

2019