STM GROUP PLC

ANNUAL REPORT & ACCOUNTS 2020

STM is a multi-jurisdictional financial services group traded 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 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

OUR BRANDS

STM GROUP

options™ for your tomorrow

LONDON & COLONIAL
INNOVATION IN PENSIONS

FINANCIAL INFORMATION

REVENUE	2020	2019	2018
Reported	£24.0m	£23.3m	£21.4m
Underlying*	£24.0m	£22.9m	£20.5m

PROFITABILITY	2020	2019	2018
Reported profit before other items	£3.6m	£3.5m	£4.7m
Underlying* profit before other items	£4.0m	£4.2m	£4.4m
Reported profit before tax	£2.0m	£3.9m	£4.0m
Underlying* profit before tax	£2.4m	£2.6m	£3.7m

RECURRING REVENUE

2020	2019	2018
£20.3m	£18.0m	£16.3m
(85%)	(77%)	(76%)

UNDERLYING* PROFIT MARGINS

	2020	2019	2018
Profit before other items	17%	18%	21%
Profit before tax	10%	11%	18%

TOTAL DIVIDENDS

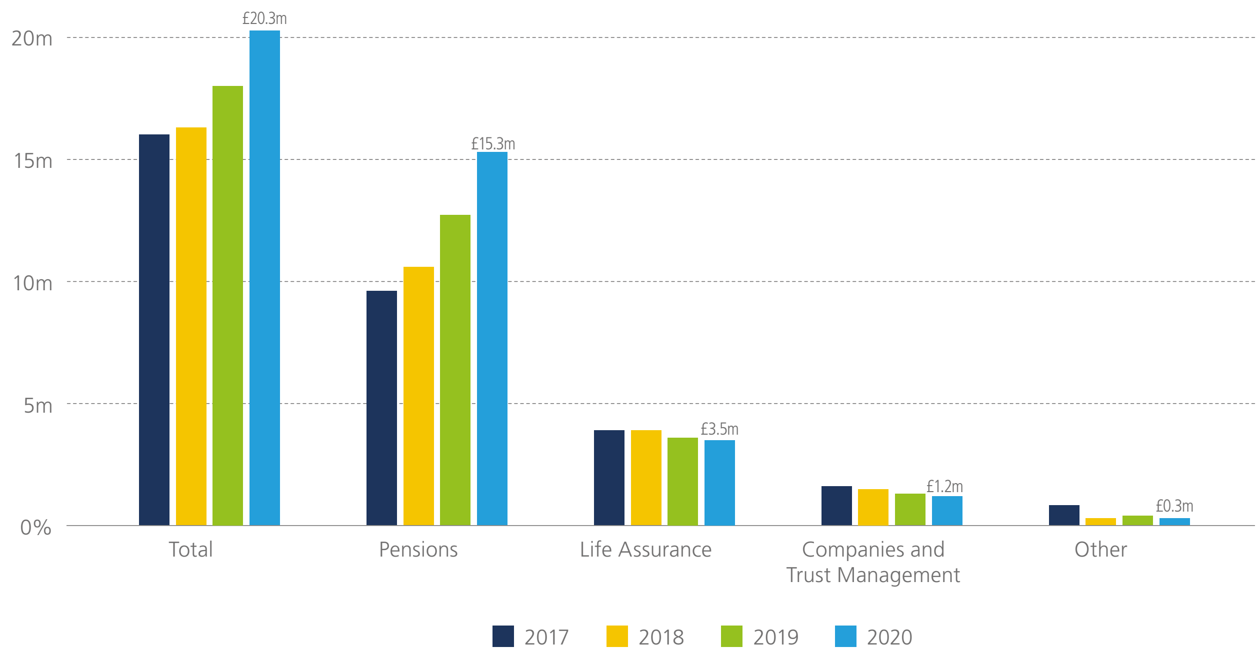
2020	2019	2018
1.40p	1.50p	2.00p

CASH & CASH EQUIVALENTS

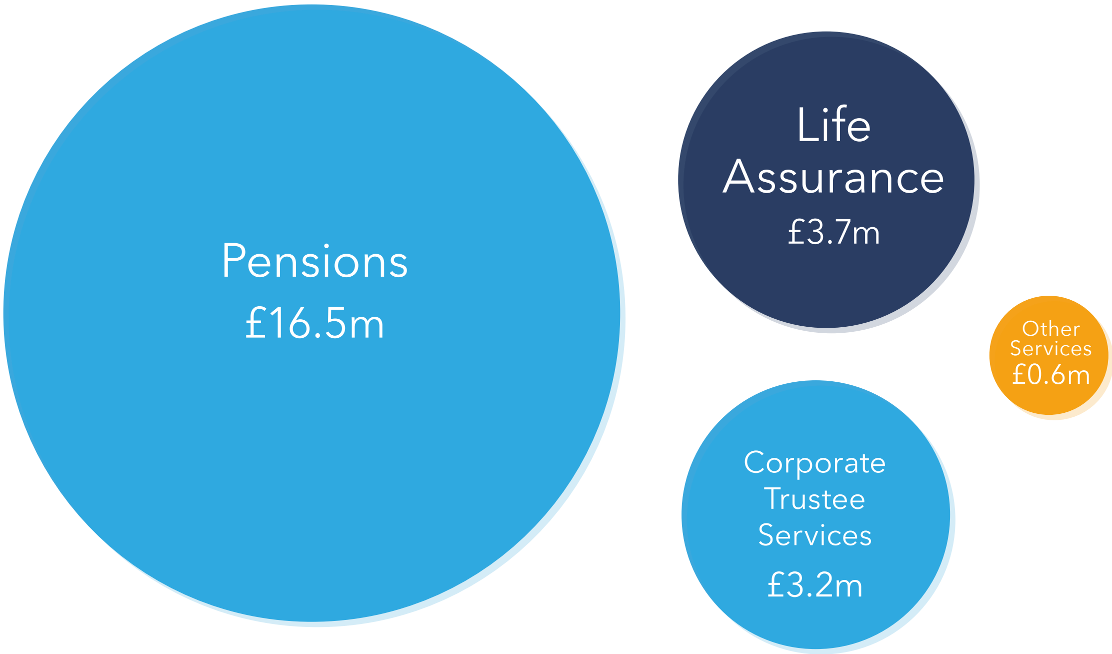
	2020	2019	2018
Balance net of borrowing	£14.8m	£17.2m	£15.6m
Cash flow from operations	£2.3m	£3.1m	£2.6m

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

RECURRING REVENUE



REVENUE BY OPERATING SEGMENT



OPERATIONAL INFORMATION

- Stability of recurring revenue despite the Covid-19 virus
- Focussed on keeping colleagues safe through working from home and following Governments' guidelines and maintaining customers service levels
- The majority of our key IT projects for improved profitability are now live with the remaining concluding in the first half of 2021. Continued focus on technology to become a key differentiator
- UK orientated products - Shariah SIPP and Workplace Pension Plan ("WPP") solutions - now launched, with opportunity for international solution as well
- WPP corporate business moving towards break-even
- Flexible annuity pipeline building, but slower than anticipated conversion rate
- Active pipeline of acquisition opportunities, particularly in the UK
- Strategic focus on core activities of pension administration and life assurance, with post period end disposals of the CTS businesses

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, offering both a simple SIPP solution as well as a bespoke SIPP.

LIFE ASSURANCE WRAPPERS

The Group is able to offer a broad range of life assurance product solutions with a specific focus on asset and investor protection, privacy and tax optimisation.

GROUP PENSION PLANS (GPP)

Acquired through the Berkeley Burke acquisition. Entry into international corporate pension market.

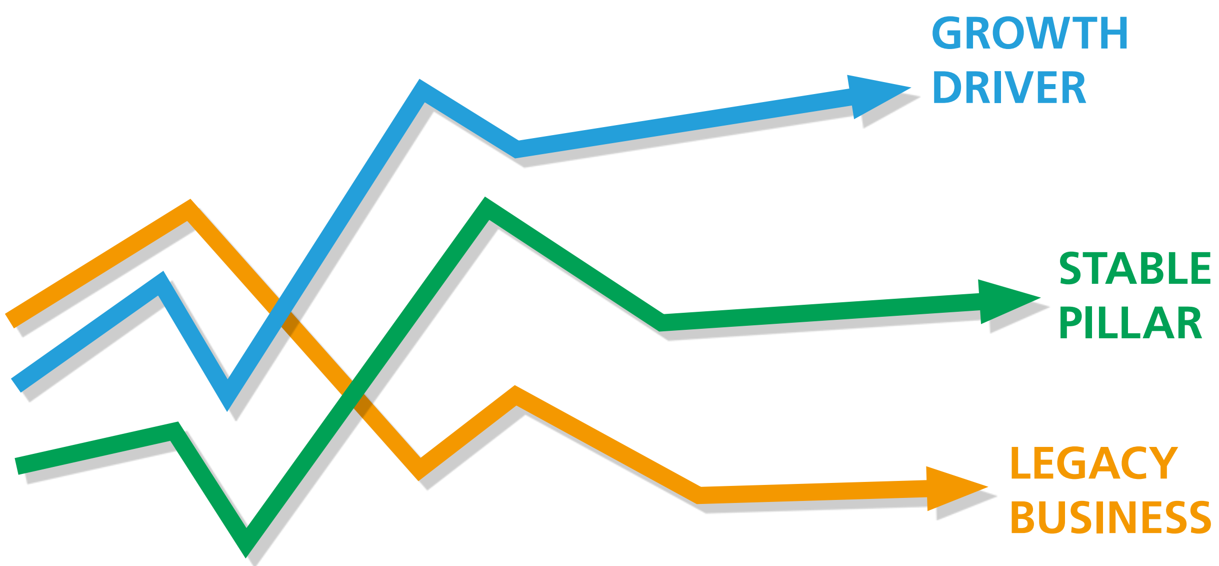
Non - continuing division: Both CTS businesses disposed of post year end.

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 and sold post year end.

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. With an attrition rate of only 6% and still open to EEA residents this provides a solid basis for STM's recurring revenue.



MAIN TRADING JURISDICTIONS AND PRODUCTS

United Kingdom
SIPPS
SSAS
Group Pension Plan
Workplace Pensions

Gibraltar
QROPS
Life Assurance Portfolio Bonds
Annuities
Trust & Company*
Workplace Pensions

Malta
QROPS
Workplace Pensions

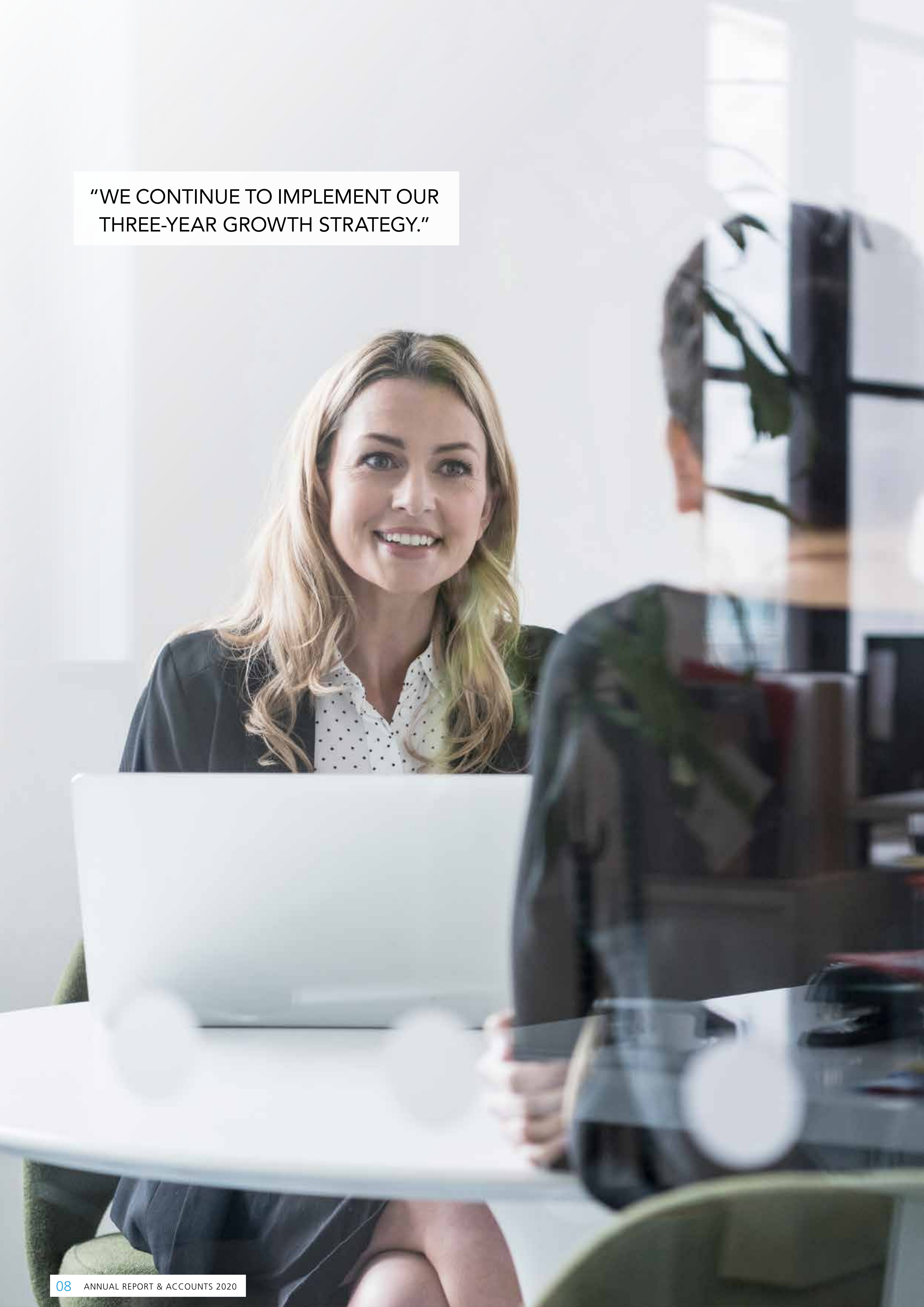
Jersey
Trust & Company*

305
Our Colleagues

205,000
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.

* Sold post year end



"WE CONTINUE TO IMPLEMENT OUR THREE-YEAR GROWTH STRATEGY."

CHAIRMAN'S STATEMENT

DUNCAN CROCKER
Chairman

I AM PLEASED TO PRESENT OUR 2020 FINANCIAL STATEMENTS WHICH REFLECT ANOTHER CHALLENGING BUT PROGRESSIVE YEAR AGAINST THE BACKDROP OF THE SIGNIFICANT COVID-19 COMPLICATIONS. WE HAVE HOWEVER, MADE SIGNIFICANT PROGRESS IN A NUMBER OF AREAS AS WE CONTINUE TO IMPLEMENT OUR THREE-YEAR GROWTH STRATEGY AND HAVE ALSO KEPT OUR COLLEAGUES SAFE AND PROTECTED DURING THE PANDEMIC.

Our operating model has come a long way since it was revised in 2019, giving much clearer demarcations of personal and divisional accountability. We will continue to challenge and revise it where appropriate so as to adapt to changes in the marketplace, and how we need to operate. The key criteria being that we must set a firm foundation for future profitable growth.

Following the 2019 acquisition of Options, we have further strengthened our UK operations in August 2020 with the acquisition of a small SSAS and Group Pension Plan business, that will deliver annual revenue of circa £1.7 million. This complements our aspirations of building on a stronger UK focus going forward, and we will expect to make further acquisitions in the UK in the near future.

There have been a number of important IT projects carried out during 2020, and I am pleased to say that these have progressed well, with the 'go-live' of Office 365 and the two administration systems for the UK businesses, alongside the two QROPS businesses due to migrate in the second quarter of 2021. These will deliver important efficiencies during the second half of 2021 and will contribute to an improvement of our operating margins going forward.

Our primary challenge during 2020 and into 2021 is how we accelerate our new business growth, which has been a frustration that I share with the executive and the wider Plc board. We have a robust and solid infrastructure that requires a healthy stream of new business. We continue to have a major focus on building our distribution network for both the UK and international markets despite Covid hindering the process. We are also actively seeking new strategic distribution partnerships in all jurisdictions.

Post period end, we realised the sale of our non-core CTSP businesses which was a key deliverable on the Group's roadmap in order to allow STM's executive management to focus on STM's core activities of pension administration and provision of life assurance wrappers. Accordingly, I am acutely conscious that our numbers for 2021 have been pared back, reflecting a spreading of our fixed head-office costs over a smaller revenue base. We are actively challenging how we can mitigate this as we continue to streamline our corporate structure to focus on our core activities of pension administration and life assurance products. In addition, we are actively reviewing our capital allocation processes to obtain a more efficient solution.

Finally, I continue to watch the developments of the Adams vs Carey case, and believe that further guidance and clarity for SIPP providers, and indeed the wider UK financial services industry which operates in an execution only environment can only be beneficial to all parties. The new case law in the original ruling, and upheld in the Court of Appeal, in relation to Conduct of Business principles will be something that future Ombudsman rulings are expected to take into account.

I would like to take this opportunity to thank the Group's Directors, executives and all our colleagues for their relentless efforts during 2020, and one of my primary concerns remains protecting the welfare of our staff, their families and our clients' service standards in these uncertain times. I would specifically like to thank our CFO, Therese Neish for her enormous efforts and ongoing professionalism in a year where she has declared her intent to move on.

Duncan Crocker

Duncan Crocker

Chairman

10 May 2021

"THERE CONTINUES TO BE A STRONG FOCUS ON BRINGING PRODUCTS TO MARKET AND ENSURING WE GENERATE THAT NEW BUSINESS GROWTH THAT WE KNOW OUR PRODUCT OFFERINGS AND TRADING OPERATIONS ARE CAPABLE OF."

CHIEF EXECUTIVE OFFICER'S STATEMENT

FROM A MACRO-ECONOMIC VIEWPOINT, 2020 WILL BE REMEMBERED AS A YEAR THAT KEPT ON THROWING UP UNCERTAINTIES, FROM THE HARD/SOFT BREXIT DEBATE THROUGH TO THE UNPRECEDENTED TURMOIL, DISTRESS AND UNKNOWN OF COVID-19. IT HAS BEEN A HARD YEAR NOT ONLY FOR BUSINESSES BUT ALSO FOR PEOPLE AS A WHOLE.

ALAN KENTISH
Chief Executive Officer

As a business, STM has been very fortunate that it has a solid and predictable recurring revenue base, and this has held us in good stead throughout the year. On the face of it, we have achieved a significant amount of what we set out to achieve during 2020, and into the early part of 2021.

Our colleagues across the various jurisdictions in which we have trading operations were able to successfully implement our "working-from-home" plans so that our day to day interaction with customers and other stakeholders were more or less unaffected by Covid-19. This is a credit to our management team and the various hardworking teams that have carried on their duties as usual.

Importantly, we were still able to complete one acquisition during the year and this will add to our UK recurring revenue base for 2021 and beyond. Subsequent to the year end, we successfully sold both our CTSP businesses, which were no longer core to our strategy and had struggled for organic growth under our stewardship.

Many of our 2020 building blocks are now in place that will allow increased operating margins in our trading entities. Such building blocks were focused on moving to three core IT systems across the businesses, implementing Office 365 as our underlying business tool, replacing two of our personal pension administrative systems with BOSS, our in-house pension administrative system, which now supports all our personal pensions, and finally the successful migration of our auto-enrolment business onto the ITM administrative system.

Despite recognising the significant revenue growth within our pensions business, without a doubt the biggest frustration of 2020 has been the slower than anticipated new business take-on across the Group. Certainly Covid-19 played a significant part in that. There was an expectation of some bulk transfers to Options in relation to the UK workplace pensions that were delayed or did not occur, as well as some partnership ventures particularly with regards to the UK SIPP business that have been slower to progress than anticipated. Our flexible annuity product shows significant promise in relation to future business but continues to be slower to convert than anticipated. The Plc board continues to have a focus on accelerating this.

Generally speaking, our trading subsidiaries have performed broadly as expected, albeit during 2020 we revised downwards our profit expectations on the back of the slower than anticipated new business take up, that is referred to above. Certain important milestones were achieved, including the transition of our UK workplace pension solutions business from a significant loss-making business at the time that we acquired it in 2019 into a scalable business that is expected to be profitable in 2021.

There remains significant uncertainty in the personal pensions' environment in relation to the duties and obligations of pension administrators, particularly in the UK. The original ruling in 2020 on the Adams vs Carey case found on all counts in favour of Carey, however at the recent judgment handed down on 1 April 2021 the Court of Appeal found in favour of Mr Adams so that the setting up of the SIPP was unenforceable. This ruling is likely to have a significant impact on UK financial services businesses that have interactions with unregulated introducers. On 28 April 2021 Options sought permission from the Supreme Court to appeal the Court of Appeal judgment.

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.

The Group has reported revenues of £24.0 million (2019: £23.3 million) in the year with profit before other items of £3.6 million (2019: £3.5 million). Whilst these measures show modest growth it is on the back of an unprecedent year in terms of the global pandemic resulting in new ways of working for our teams and financial uncertainty, which has no doubt impacted our new business levels.

Historically the business has had a large number of one off non-recurring movements such as the insurance technical revenue releases, and accounting adjustments due to acquisitions. These have been considerably less in 2020 as shown in Table 2 below. As such there are none which impact revenue so that underlying revenue is as per our reported revenue at £24.0 million (2019: £22.9 million). A small number of non-recurring costs have been incurred within operating expenses mainly in relation to integration costs and redundancies resulting in underlying profit before other items of £4.0 million (2019: £4.2 million). The decrease in underlying profit before other items is largely as a result of the higher professional indemnity insurance premiums, an increase which was seen across the market, which were introduced in September 2019 resulting in 2020 being a full year with these higher costs. This has also contributed to the slightly lower underlying profit margin of 17% (2019: 18%).

The reported profit before tax ("PBT") is calculated after deducting net finance costs of £0.2 million (2019: £0.3 million) and various non-cash expenses such as depreciation and amortisation on both client portfolios acquired as part of the acquisitions and IT projects totalling £1.4 million (2019: £1.3 million). In addition, last year the Group also recognised a bargain purchase gain on the Options acquisition of £1.7 million as well as the value of the call options agreement in relation to these minority shares of £0.4 million, the change in valuation in 2020 was £0.1 million.

Reported PBT for the year amounted to £2.0 million (2019: £3.9 million) with underlying PBT (defined on a consistent basis with underlying revenue and profit before other items) for the year of £2.4 million (2019: £2.6 million).

Pleasingly, recurring annual revenue, which is an important key performance indicator for the Board has increased quite significantly. This has been as a result of both organic growth as well as the results no longer benefitting from the technical reserve releases which were classified as one-off as there was always a finite timeframe for these. Recurring revenue for 2020 has accounted for 85% of total revenues (2019: 77%), thus a total of £20.3 million (2019: £18.0 million).

Table 1

KPI	DEFINITION	2020 Results	2019 Results
Revenue (£000)	Income derived from the provision of services	23,982	23,251
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	3,570	3,475
Profit before other items margins (%)	Profit before other items divided by revenue	15%	15%
Profit before tax (£000)	Profit before taxation	2,020	3,923
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	23,982	22,911
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	4,034	4,235
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	2,425	2,565
Underlying profit margins (%)	Underlying profit before other items divided by revenue	17%	18%
Recurring revenue (£000)	Revenue derived from annual management charges and/or contractual fixed fee agreements	20,334	18,025

Table 2

RECONCILIATION OF REPORTED TO UNDERLYING MEASURES:	REVENUE 2020 £000	REVENUE 2019 £000	PROFIT BEFORE OTHER ITEMS 2020 £000	PROFIT BEFORE OTHER ITEMS 2019 £000	PROFIT BEFORE TAX 2020 £000	PROFIT BEFORE TAX 2019 £000
Reported measure	23,982	23,251	3,570	3,475	2,020	3,923
Less: release on technical reserve	–	(946)	–	(946)	–	(946)
Add: adjustment due to revenue recognition policy changes on acquisitions	–	606	–	606	–	606
Less: bargain purchase gain on acquisition and gain on call options	–	–	–	–	(59)	(2,118)
Add: integration and acquisition costs	–	–	179	461	179	461
Add: other non-recurring costs	–	–	285	639	285	639
Underlying measure	23,982	22,911	4,034	4,235	2,425	2,565

TAX CHARGE AND EARNINGS PER SHARE

The tax charge for the year was £0.4 million (2019: £0.5 million). This is an effective tax rate of 20% (2019: 13%) which is in line with expectations.

Earnings per share ("EPS") for 2020 is 2.70p compared to 5.73p for 2019 due to the higher PBT in 2019 as a result of the bargain purchase gain. Diluted earnings per share for 2019 took into consideration the long-term incentive plan which was in existence for part of 2019. There was no dilutive factor in 2020 as such the diluted EPS for 2020 is also 2.70p (2019: 5.64p).

CASHFLOWS

Cash and cash equivalents amounted to £16.4 million as at 31 December 2020 (2019: £18.4 million) with net cash inflow from operating activities of £2.3 million for the year ended 31 December 2020 (2019: £3.1 million).

During the year the Company repaid the one-year bank loan of £1.2 million taken out in 2019. In addition, during the year the Company signed a credit facility with Royal Bank of Scotland (International) Ltd for £5.5 million. The facility has a 5-year term with capital repayments structured over ten years and a final instalment to settle the outstanding balance in full at the end of the 5 years. The Company drew down £1.6 million of this facility as part of the Berkeley Burke acquisition, all of which was outstanding at the year end.

As such, net cash and cash equivalents as at 31 December 2020 were £14.8 million (2019: £17.2 million).

As would be expected for a Group regulated in a number of jurisdictions, a significant proportion of this balance forms part of the regulatory and solvency requirements. It is not possible to determine exactly how much of the cash and cash equivalents are required for solvency purposes as other assets can be used to support the regulatory solvency requirement. The total regulatory capital requirement across the Group as at 31 December 2020 was £18.3 million (2019: £17.4 million).

The balance sheet also gives visibility of future revenue and cash generation and, in line with all administration services businesses, the Group had accrued income in the form of work performed for clients but not yet billed of £1.3 million as at the year end (2019: £1.2 million). Additionally, deferred income (a liability in the statement of financial position) relating to annual fees invoiced but not yet earned stood at £3.6 million (2019: £4.2 million). Both these figures give good visibility of cash collections and in the case of deferred income, revenue still to be earned through the Income Statement in the coming months.

Other large balance sheet items relate to trade and other receivables of £5.5 million as at 31 December 2020 (2019: £5.8 million) and a new balance in 2020 for assets held for sale. It is a requirement of accounting standards to reflect all assets held for sale separately on the Statement of Financial Position thus this is purely a reallocation of the net assets and goodwill in relation to these assets held for sale.

As required by accounting standards (IAS 37 – Provisions, Contingent Liabilities and Contingent Assets) consideration has had to be given as to whether the Court of Appeal judgment against Options has given rise to a provision as to the potential financial obligation which could arise in the future and whether such a provision can be reliably estimated. Whilst permission to appeal this judgment has been sought from the Supreme Court a provision has been reflected in the Balance Sheet within trade and other payables. Given that the ruling made in Mr Adams' case is fact specific it is difficult to assess the exact obligation that could arise on other claims based on this one case. An estimate has been arrived at by considering a cohort of claims which may be deemed to have similar characteristics to Mr Adams' claim. This is covered by professional indemnity insurance and thus has also been reflected within trade and other receivables.

DIVIDEND

I am pleased to advise that the Board is recommending the payment of a final dividend of 0.85p per share (2019: 0.75p per share), an increase of 13% from prior year. This together with the interim dividend paid of 0.55p in November 2020 (2019: 0.75p) makes a proposed total dividend for the year of 1.40p per share (2019: 1.50p).

Subject to approval at the Company's Annual General Meeting to be held on 24 June 2021, the final dividend will be paid on 30 June 2021 to shareholders on the register at the close of business on 28 May 2021. The ordinary shares will be marked ex-dividend on 27 May 2021.

CHIEF EXECUTIVE OFFICER'S STATEMENT

OPERATIONAL PERFORMANCE

PENSIONS

Our pension administration businesses continue to be the life-blood of our group, and the corner stone to our profitability. The Options acquisition made in 2019 has shown significant revenue growth in 2020 and the integration savings expected from the SIPP business have now started to come through. In addition, the Berkeley Burke acquisition in 2020 is also generating both revenue and profit contributions in the 5-month period since acquisition.

Whilst new business levels were slower to come through than we originally expected as a result of the global pandemic impact they were still higher volumes than in prior year within the SIPP and auto-enrolment businesses. A total of 585 SIPPS were signed up in 2020 compared to 452 in 2019. In addition, the auto-enrolment business saw 40,000 new members since acquisition to 31 December 2019 as compared to 72,000 new members in 2020.

Total revenue across our pensions businesses amounted to £16.5 million (2019: £14.1 million) and accounted for 69% of total Group revenue (2019: 61%). In addition, recurring revenues for the pension businesses remain high at 93% (2019: 90%).

The administration of our ROPS products continues to be our largest revenue generator accounting for £10.1 million of revenue (2019: £10.1 million). This administration is carried out in Malta and Gibraltar with the revenue continuing to be split 75% and 25% respectively as was the case in 2019. As has been known for a number of years, this product is no longer a growth factor as a result of changes in the UK pension legislation in 2017. Whilst we continue to receive a small number of new members from EEA countries (203 in 2020 compared to 225 in 2019) the attrition rate is increasing as we see our member profile age and take advantage of flexi access benefits in Malta. The attrition rate in 2020 was 6% (2019: 5%).

The SIPP businesses, both Options Personal Pensions and London & Colonial Services Limited, have contributed total revenues of £3.5 million (2019: £2.7 million). The increase in revenues is a combination of now having the benefit of a full year of Options as well as organic growth. The administration for both these businesses is now being carried out from the Milton Keynes offices and the integration savings expected are now starting to come through. The final aspect of this integration, being the IT migration, happened towards the end of the year and thus the benefits will come through in 2021.

As mentioned above the auto-enrolment business saw a significant increase in members and this has resulted in increased revenues for the year of £2.2 million (2019: £1.3 million). Whilst this business remains break-even we expect it to become a profit generator for the Group during the early part of 2021.

The final revenue stream of the pensions divisions comes from the recently acquired Berkeley Burke companies. This acquisition came with a small SSAS business and a Group Pension Plan business providing third party administration. The SSAS business contributed revenues of £0.1 million in the year with the Group Pension Plan generating revenue of £0.6 million.

LIFE ASSURANCE

The 2020 combined revenue figure was £3.7 million compared to £4.8 million for 2019. The main reason for the decrease is due to the final release of £1.0 million in 2019 in relation to the technical reserve which came with the London & Colonial acquisition made in 2016. Adjusting for this one-off transaction results in similar revenue figures year on year.

Whilst the business saw some new business materialise through the launch of the flexible annuity products this growth has made up for the loss of interest income as a result of the decreased interest rates and natural attrition on the existing client portfolios.

Our flexible annuity products aimed at the UK market remain the key focus for organic growth within our life businesses. As previously reported our pipeline of potential new business remains significant, albeit, as mentioned above the length of time for that to convert into new business is longer than we originally envisaged.

In a similar manner to that of our pensions administration businesses, recurring revenue is a significant proportion of revenue being 94% in 2020 (2019: 75% due to the one-off technical reserve release of £1.0 million distorting this percentage).

CORPORATE AND TRUSTEE SERVICES ("CTS")

Turnover from the Corporate and Trustee Services ("CTS") division for the year was £3.2 million (2019: £3.7 million) thus accounting for 13% of the Group's total turnover (2019: 16%).

Our Gibraltar business contributed 53% (2019: 48%) of this revenue, with Jersey contributing the other 47% (2019: 52%).

As noted in previous year's reports, the CTS environment and sector remains challenging, and it is fully recognised by the Group that this revenue stream was not a core area going forward.

Subsequent to the year end the Company has sold off both its CTS businesses. On 23 March 2021 it sold the Gibraltar business to the privately-owned Sovereign Group which already has a significant presence in Gibraltar, and on 8 May 2021 it sold the Jersey business to the privately-owned Imperium Group which has its head office in Guernsey. Part of ensuring that we exited the CTS sector in an orderly manner was ensuring that both our work colleagues and our CTS clients would be well looked after going forward. I am pleased to say that this will be the case with the new respective owners of each business.

OUTLOOK

Our trading outlook for the year remains in line with management's expectations and we believe the Group is positioned to grow, both organically and by acquisition.

2021 is all about capitalising on the hard work carried out in 2020; ensuring the efficiency benefits of the completed IT projects fully materialise, and the partnerships that were in their infancy in 2020 truly blossom to meet the management team's expectations. We continue to look at entering further key distribution partnerships for our core products with a view to accelerate organic growth in these areas.

There continues to be a strong focus on bringing products to market and ensuring we generate that new business growth that we know our product offerings and trading operations are capable of. In this regard, we must balance our governance structure and controls against a background of ambitious growth as an AIM listed company.

We anticipate that there will be further clarity given in relation to the duties of UK SIPP providers following the latest judgment by the Court of Appeal. On 28 April 2021 Options sought permission from the Supreme Court to appeal this judgment. It is anticipated that the outcome of this request will not be known for a further few months albeit the company is well protected financially due to the insurance protections it has in place. Importantly, the Court of Appeal upheld the Judge of first instance decision in relation to Carey acting correctly under the FCA's Conduct of Business principles, and this new law hopefully will be taken into account in future Ombudsman rulings.

A number of key initiatives will conclude in the first half of 2021, including a capital management review as to how we can be more efficient with capital across our business; and we will continue to look to streamline our trading operations so that we focus purely on our core activities of pension administration and provision of life assurance wrappers.

The Board remains fully committed to our acquisition strategy, and see this as an important pillar of our overall growth aspirations.

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.

Finally, it would be remiss of me not to single-out Therese, our CFO for the last seven years, to thank her for all her hard work over those years, and for the support she has given to both me personally and the business overall during some very difficult times. Whilst she will be with the business for the foreseeable future, whilst we recruit her replacement, I wish her success in the next step of her career.

I look forward to updating the market during the course of 2021 with our progress.

Alan Kentish

Alan Kentish

Chief Executive Officer

10 May 2021

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 2020. These will be laid before the shareholders at the Annual General Meeting to be held on 24 June 2021.

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 £1,607,000 (2019: £3,403,000) has been transferred to reserves.

In respect of the year ended 31 December 2020 an interim dividend of 0.75p per share was paid in November 2020 and the Directors recommend, subject to shareholder approval at the AGM to be held on 24 June 2021, a final dividend of 0.85p per share be paid on 30 June 2021.

GOING CONCERN

The Directors have prepared the financial statements on a going concern basis, as in their opinion the Group is able to meet its obligations as they fall due for a period of at least 12 months from the date of this report. In considering this requirement, the Directors have considered the three-year business plan, three-year budgets and rolling cashflow forecasts for the forthcoming 18-month period. In addition, the risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months. These show that the Group should continue to be cash generative, and have sufficient resources to meet its business objectives, both in the short-term and in relation to its strategic priorities.

Having due regard to these matters the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the forthcoming 12 months. As such, the Board continues to adopt the going concern basis in preparing the financial statements.

DIRECTORS

Details of the Directors of the Company who served during the period and to date are:

Duncan Crocker

Alan Kentish

Pete Marr

Therese Neish

Malcolm Berryman

Robin Ellison

Graham Kettleborough

Alan Kentish has an interest in 6,718,817 ordinary shares of the Company. 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 of the Company.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

These financial statements were prepared under IFRS 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 7 May 2021 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

As at 7 May 2021:

	%
Premier Miton Group Plc	16.99
Clifton Participations Inc and A R Kentish	11.31
Septer Limited	10.85
Eastmount Capital Partners LLP	4.71
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 24 June 2021 is set out on pages 63 to 65.

By order of the Board

Alex Small

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

10 May 2021

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 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 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	2020	2019	Notes
Executive Directors			
Alan Kentish	£205,000	£205,000	
Pete Marr	£192,500	£177,939	a,b
Therese Neish	£160,925	£160,925	
Sub-total	£558,425	£543,864	
Non-Executive Directors			
Duncan Crocker	£60,000	£60,000	
Robin Ellison	£52,000	£48,000	c
Malcolm Berryman	£85,000	£75,000	c
Graham Kettleborough	£68,000	£64,552	c
Sub-total	£265,000	£247,552	
Total	£823,425	£791,416	

a. Pete Marr receives a 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.

b. Pete Marr was appointed on 30 January 2019.

c. Robin Ellison, Malcolm Berryman and Graham Kettleborough were appointed to various boards of subsidiary companies during 2018 and 2019. Remuneration for 2020 represents full annual costs for Robin Ellison and Graham Kettleborough plus a catch-up from 2018 for Malcolm Berryman.

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 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. He is currently Senior Independent non-executive Director at Openwork Partnership. 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 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 2020. 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 on the life and pensions sector;
- increase the introducing intermediary network;
- diversification of the pensions and life product range;
- increase our UK regulated products 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 risk across the Group.

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 and factors	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 • High level of compliance in product and service delivery • Customer focus is the main determinant in decision making and not share price or short-term earnings • 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 individuals with the appropriate skills set.	• The Group offers competitive remuneration packages • Succession planning • The Group provides appropriate training for staff and management • The Group promotes a favourable work environment to retain and attract staff	No change
GEOPOLITICAL RISKS	The Group could be adversely affected by changes in existing legislation, fiscal policy or political factors, such as Brexit.	• The Group is diversified in both its product range and the jurisdictions from which it administers them	No change
NON-PERFORMING INVESTMENTS	The Group recognises that the UK SIPP industry is becoming more litigious over non-performing assets and that STM also has an exposure to QROPS' non-performing assets. The Group could therefore be adversely affected by this.	• The Group does not provide financial or investment advice to its customers therefore believes it 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 • Professional indemnity insurance in place	No material change in quantum of non-performing assets. Legal and regulatory environment continues to tighten
APPEAL JUDGMENT IN ADAMS V CAREY CASE	The Group acknowledges that whilst the Court of Appeal upheld the High Court's ruling on COBS it ruled against Carey (now Options) on s27 of the Financial Services Market Act 2000 (FSMA) and refused to exercise its discretion under s28 to disapply the effect of s27. This could have an impact on claims made against the business as well as reputational damage.	• The Carey companies have extensive insurance cover • STM obtained indemnities from the prior owners when it acquired the Carey Group of companies • The Court of Appeal upheld the High Court ruling under COBS and confirmed that Carey treated Mr Adams fairly, honestly and professionally • The Court of Appeal judgment in respect of s27 and s28 of FSMA was fact specific • Permission has been sought to appeal the Court of Appeal judgment to the Supreme Court and thus the outcome of this case is not yet known or final	New risk

RISK MANAGEMENT *(continued)*

Area	Description of risk	Examples of mitigating activities and factors	Change from prior year
COVID-19	Impact on sales and 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 and working effectively • 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	Operational changes are embedded and impact now clearer, with a return to a form of business as usual anticipated in the coming months. The risk remains but has reduced
TECHNOLOGY DISRUPTION	The Group could suffer operational disruption in the event of technology disruption such as a cyber-attack or hardware failure.	• Significant and ongoing investment in IT systems • 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 • Periodic testing to identify vulnerabilities and deliver improvements • Detailed disaster recovery and business continuity plans in place	Cyber threat has intensified. Steps taken to mitigate risk, particularly around remote working practices
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 26 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 Chairman is responsible for over-seeing the development and implementation of the Company's strategy, its governance framework 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 judgment. Further details on the Board can be found on pages 18 & 19.

The non-executive directors provide 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 are observed and the Company's obligations as an entity listed on the London Stock Exchange are met.

The profiles of the individual board members can be viewed on pages 18 & 19.

The Board comprises an appropriate balance of industry, finance 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.

BOARD EFFECTIVENESS

An internal review of Board effectiveness, led by the Chairman, was carried out in February 2021 by means of a questionnaire and one-to-one sessions. The review identified that the Board worked well, with Board meetings considered effective. A need was identified to allow more time to discuss strategy and ad hoc items requiring debate. The review also identified that more frequent interaction between meetings, outside the Boardroom environment, would be beneficial. These proposals have been addressed by means of an expanded Board agenda and, when Covid restrictions permit more informal one-to-one interaction, outside the Board cycle.

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' ethos which is at the heart of decision-making processes, aligned to a positive and pro-active relationship with our stakeholders.

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

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 comprise 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 judgments and practices, the operation of internal controls and the effectiveness of the financial reporting policies and systems. It is responsible each year for satisfying itself on the independence and objectivity of the external auditor. The Audit & Risk Committee meets at least four times a year and at such other times as the Chairman of the Committee sees fit. The Chairman of the Committee is appointed by the Board.

In 2020, the Audit & Risk Committee reviewed 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 defense 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 Group's risk management capabilities continue to evolve and refine, providing local level risk management and Group level oversight.

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 Committee has established the high-level qualitative Risk Appetite Statement for the Group and requires the subsidiaries to link their own Risk Appetite to the Group. 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 Committee makes recommendations to the Board in respect of any 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 Committee on a biannual basis.

REMUNERATION COMMITTEE

The duties of the Committee are to:

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

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

The Committee met three times in 2020. Key areas of focus included the 2019 bonus out-turn, 2021 bonus targets and consideration of a potential senior management share incentive plan.

Meeting attendance for the year ended 31 December 2020 was:

DIRECTOR	Board Attended	Audit & Risk Committee Attended	Remuneration Committee Attended
Duncan Crocker	11/11	—	3/3
Alan Kentish	11/11	—	—
Therese Neish	10/11	—	—
Pete Marr	11/11	—	—
Malcolm Berryman	11/11	5/5	3/3
Robin Ellison	11/11	4/5	3/3
Graham Kettleborough	11/11	5/5	3/3

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 2020 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);
- the parent company financial statements have been properly prepared in accordance with IFRSs and as applied to an Isle of Man Company; and
- the financial statements have been prepared in accordance with the requirements of the Isle of Man Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company statement of financial position;
- the consolidated and parent company statement of changes in equity;
- the consolidated statement of cash flow; and
- the related Notes 1 to 32.

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:

- Allocation and impairment of goodwill relating to the Gibraltar CGUs;
- Valuation of the acquired Berkeley Burke entities' client portfolios as part of the acquisition accounting;
- Call options valuations; and
- Provisioning for potential complaints as a result of the UK Court of Appeal decision "Adams -v- Options UK Personal Pensions LLP".

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

Newly identified

Increased level of risk

Similar level of risk

Decreased level of risk

MATERIALITY

The materiality that we used for the group financial statements was £220,000 which was determined on the basis of 1% of the revenue.

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 either full scope audits of the component or specified account balances 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, 97% of profit before taxation and 85% of net assets.

SIGNIFICANT CHANGES IN OUR APPROACH

During the year, the Group has seen several changes to the business and environment it operates in. The acquisition of the Berkeley Burke entities has had a significant impact on the Group and the results for the year ended 2020.

We have identified additional key audit matters in relation to the Berkeley Burke entities' client portfolios as part of the acquisition accounting, the allocation and impairment of goodwill relating to the Gibraltar cash generating units "CGUs" and the provisioning for potential complaints as a result of the Carey v Adams appeal ruling in April 2021.

In our audit for the year ended 31 December 2019 we considered the change in methodology in the insurance technical reserves as a key audit matter. The change in methodology meant the reserves were measured at nil. There have not been any significant changes to the processes around or composition of the account balance and therefore this has not been considered as a key audit matter in the current year.

We also considered the valuation of Carey client portfolios as a key audit matter for the year ended 31 December 2019. The acquisition was completed during 2019 and therefore not deemed a relevant key audit matter in the current year. The valuation of the call options related to the Carey acquisition remains a key audit matter in the current year.

The impact of Covid-19 was also included as a specific key audit matter in our audit for the year ended 31 December 2019. The impact of Covid-19 on the specific judgements and estimates within the key audit matters identified for the 2020 year end audit has been considered in our risk assessment and audit procedures. We concluded that the impact has not been significant enough to warrant a key audit matter.

The materiality benchmark in the current year has changed from normalised profit before tax (PBT) in the prior year to revenue, this is mainly due to a number of one-off accounting items, and the fact that growth in PBT is expected to lag revenue growth from acquisitions due to timing of gaining synergy benefits.

Furthermore, given the increased economic uncertainty in the period as a result of the pandemic, we consider it appropriate to cap materiality at £220,000, in line with prior year.

4. CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Obtained and assessed management's going concern assessment which included board approved budgets for recurring revenue and cash generation plans and included Brexit and Covid-19 considerations;
- Assessed the forward looking assumptions and the reasonableness of this based on recent historic performance;
- Evaluated information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of the ongoing impact of Covid-19; and
- Assessed the appropriateness of the going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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. ALLOCATION AND IMPAIRMENT OF GOODWILL RELATING TO THE GIBRALTAR CGUS ⓘ

KEY AUDIT MATTER DESCRIPTION

As disclosed in Note 16 the goodwill balance relating to the Gibraltar CGUs has changed in assembly and structure following the post year-end sale of the Gibraltar CTS business (as disclosed in Note 32). The goodwill related to the Gibraltar CTS business of £2,250,000 has been reclassified as part of the assets held for sale. The remaining Gibraltar goodwill has been allocated to the three separate CGUs which management has identified. The goodwill allocation between the four identified CGUs has been determined with reference to the relative values based on the recoverable values of the different CGUs. The allocation of the goodwill involves an element of complexity arising from the underlying accounting standards.

Management are required by IAS 36 Impairment of assets, to perform an annual impairment review for goodwill where there are indicators of impairment. Management's impairment assessment for each CGU includes a determination of its recoverable value, being either the fair value less costs to dispose of the CGU or its value in use, depending on which is highest. With the backdrop of Covid-19 and the cessation of the growth of some of the non-EU business due to Brexit the significance of the assumptions is increased. Management's assessment concluded that the carrying value of goodwill for each CGU is not impaired.

We consider there to be a risk of material misstatement due to fraud or error in respect of the allocation and impairment of goodwill.

The accounting policy for goodwill is provided in Note 3(l) and the management judgement is discussed in more detail in the key sources of estimation uncertainty section of Note 2(d). Goodwill is disclosed in Note 16 of the financial statements.

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

We performed the following audit procedures on the allocation and impairment of goodwill:

- Obtained an understanding of the relevant controls over the reviews of the impairment review performed;
- Challenged the relative values used by management to allocate goodwill between the CGUs based on the recoverable values of each CGU;

- Evaluated the cashflow forecast used in the model against the historical trading of the CGUs and challenged the assumptions underpinning the forecast, including retrospective review of the estimates, growth rate and discount rate used;
- Assessed factors behind growth and financial performance forecast for each CGU;
- Worked with our valuation specialists to determine an estimate of the discount rate independently in order to challenge the rate selected by management;
- Compared the forecasts used in the impairment test to the forecasts used in the going concern assumption for consistency; and
- Tested the impairment calculations for mechanical accuracy and consistency.

KEY OBSERVATIONS

Based on our audit procedures, we have concluded that the assumptions used to allocate goodwill across the four CGUs were supported by the evidence we obtained. In addition, from our procedures performed we concur with management's assessment that the carrying value of goodwill for each CGU is not impaired.

5.2. VALUATION OF THE ACQUIRED BERKELEY BURKE ENTITIES' CLIENT PORTFOLIOS AS PART OF THE ACQUISITION ACCOUNTING

KEY AUDIT MATTER DESCRIPTION

As disclosed in Note 6 to the financial statements the Group acquired 100% of the share capital of Berkeley Burke (Financial Services) Ltd and Berkeley Burke Employee Benefit Consultants Ltd, referred to jointly as the BB companies, from Berkeley Burke Group Limited for consideration of £2,147k.

IFRS 3 requires that, as of the acquisition date, STM Group Plc 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 assets, if any, that should be recognised based on the final valuation approach chosen. The client portfolios of Berkeley Burke (Financial Services) Ltd and Berkeley Burke Employee Benefit Consultants Ltd were valued at £300k and £1.2m respectively. The portfolios have been valued using an excess earnings model which include a number of significant assumptions around attrition rate, new business share and integration cost savings.

Our key audit matter was focussed to the valuation of the client portfolio focussed to the customer attrition rate applied in the excess earning models used to value each of the portfolios and the first year cash flows in respect of the Berkeley Burke (Financial Services) Ltd intangible asset as these were 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 performed the following audit procedures on the valuation of the acquired Berkeley Burke entities' client portfolios as part of the acquisition accounting:

- Obtained an understanding of the relevant controls which management performed in relation to client portfolio valuation;
- Obtained and assessed the terms of the purchase agreement to corroborate the consideration payable of £2,147k. The completion accounts for the BB companies were reviewed to corroborate the value of the net assets on acquisition;
- For each portfolio we tested the accuracy and completeness of the data used in the calculations in determining the fair value of each client portfolio. This involved the following:
  - Inspection of actual costs incurred and expected savings to date with regards to the integration of the entities into STM Group;
  - Inspection of actual portfolio attrition to date;
  - Challenge of forecasts and integration costs/benefit savings by analysing performance and data from date of acquisition, and review of the ongoing integration projects;
- Involved our valuation specialists to assess the valuation methodologies for each portfolio. We also involved our valuation specialists to evaluate the methodology used to determine the discount rate and challenge the rate used by STM Group Plc by performing an independent calculation.

KEY OBSERVATIONS

Based on our audit procedures we have concluded that client portfolios have been appropriately valued.

5.3. CALL OPTIONS VALUATIONS

KEY AUDIT MATTER DESCRIPTION

As disclosed in Note 7 to the financial statements, as part of the acquisition of Carey Administration Holdings Limited ('CAHL') in February 2019, the Group entered into call option agreements to acquire the non controlling interests in Options Pensions UK LLP and Options Corporate Pensions UK Limited 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 31 December 2020 was determined at £475k (2019: £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 focussed on the revenue and expenses growth assumptions and the discount rate used across the two valuations, given the degree of judgement and estimation.

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

We performed the following audit procedures on the valuation of the call option valuations:

- Obtained an understanding of the relevant controls which management performed in relation to call options valuation. We also involved our Deloitte valuation specialists to review the methodology used to determine the discount rate;
- Assessed and challenged management's assumptions on the valuation of the call options, with particular focus on the appropriateness of the revenue growth rate, costs growth rate and discount rates on the calculation on the expected exercise price and on the calculation on the NCI value;
- 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;

- 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 Options Pensions UK LLP and Options Corporate Pensions UK Limited;
  - Challenge of forecasts and significant assumptions by analysing performance and data from date of acquisition, and benchmarking against peers of Options Pensions UK LLP and Options Corporate Pensions UK Limited.

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.

5.4. PROVISIONING FOR POTENTIAL COMPLAINTS AS A RESULT OF THE UK COURT OF APPEAL DECISION "ADAMS -V- OPTIONS UK PERSONAL PENSIONS LLP" ⓘ

KEY AUDIT MATTER DESCRIPTION

As disclosed in Note 32, subsequent to the balance sheet date on 1 April 2021 the Court of Appeal ruled, in respect of this specific case, against Carey (now Options UK Personal Pensions LLP) on s27 of the Financial Services Market Act 2000 (FSMA) and refused to exercise its discretion under s28 to disapply the effect of s27.

Following the judgment the Group has considered the potential impact this might have on the outcome of other claims made by SIPP members in respect of non-performing assets.

An estimated provision has been arrived at by considering a cohort of claims which may be deemed to have similar characteristics to Mr Adams' claim. The value of this estimate, which has been reflected within trade and other payables in Note 24, is £3,600k. This is covered by professional indemnity insurance and thus has also been reflected within trade and other receivables in Note 18.

There is an inherent degree of judgement in relation to the best estimate quantification of the provision with potential significant variation in the liabilities that may be payable to rectify individual SIPP positions.

Refer to Note 2(d), (Accounting policies); and Note 27, (Provisions).

How the scope of our audit responded to the key audit matter

We have considered whether the level of provision held was appropriate by performing the following procedures:

- Tested the completeness and accuracy of the key reports used by management to determine an estimate of the provision;
- Obtained and re-performed management's calculation of their best estimate of the provision;
- Assessed the appropriateness of the key assumptions used in respect of the cohort of claims deemed to have similar characteristics to Mr Adams' claim within the calculations;
- Assessed the professional indemnity insurance cover held by the group; and
- Evaluated the appropriateness of disclosures within the Financial Statements in respect of the provision and insurance asset recorded.

KEY OBSERVATIONS

Based on our audit procedures, we have concluded the methodology and assumptions applied are appropriate and that the values of the provision and insurance asset recorded appear reasonable.

6. OUR APPLICATION OF MATERIALITY

6.1 MATERIALITY

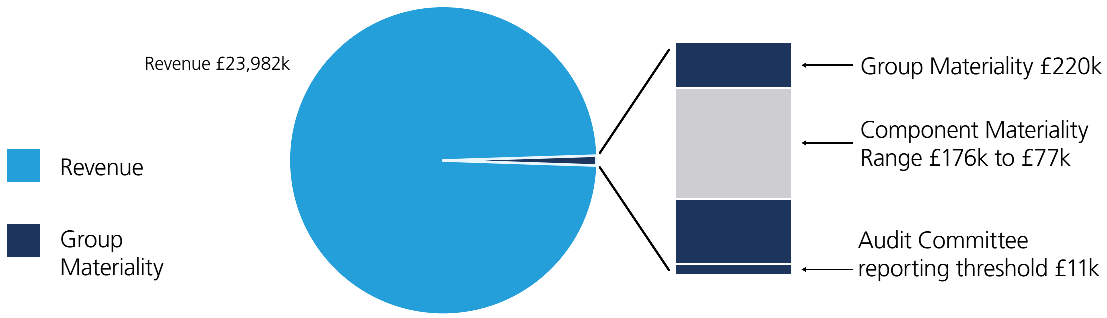
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our 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 (2019: £220,000)	£176,000 (2019: £176,000)
BASIS FOR DETERMINING MATERIALITY	1% (2019: 10% normalised profit before tax) of the revenue capped at £220,000 in line with the 2019 audit materiality given the increased economic uncertainty in the period as a result of the Covid-19 pandemic.	3% (2019: 3%) of net assets capped at 80% of Group materiality.
RATIONALE FOR THE BENCHMARK APPLIED	We consider revenue to be the appropriate benchmark of the performance of the Group, given the importance of this benchmark for investors and the stability of the benchmark in recent years. The benchmark in the current year has changed from normalised profit before tax (PBT) in the prior year, this is mainly due to a number of one-off accounting items, and the fact that growth in PBT is expected to lag revenue growth from acquisitions due to timing of gaining synergy benefits. Furthermore, given the increased economic uncertainty in the period as a result of the pandemic, we consider it appropriate to cap materiality at £220,000, in line with prior year	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 FINANCIAL STATEMENTS	PARENT COMPANY FINANCIAL STATEMENTS
PERFORMANCE MATERIALITY	70% (2019: 70%) of group materiality	70% (2019: 70%) of parent company materiality
BASIS AND RATIONALE FOR DETERMINING PERFORMANCE MATERIALITY	In determining performance materiality, we considered the following factors: - The impact of Covid-19 on the control environment; - Whether there were any significant changes in the business including the acquisition of the Berekely Burke companies; and - Low number of prior year uncorrected and corrected misstatements and the likelihood of errors occurring based on previous experience.	

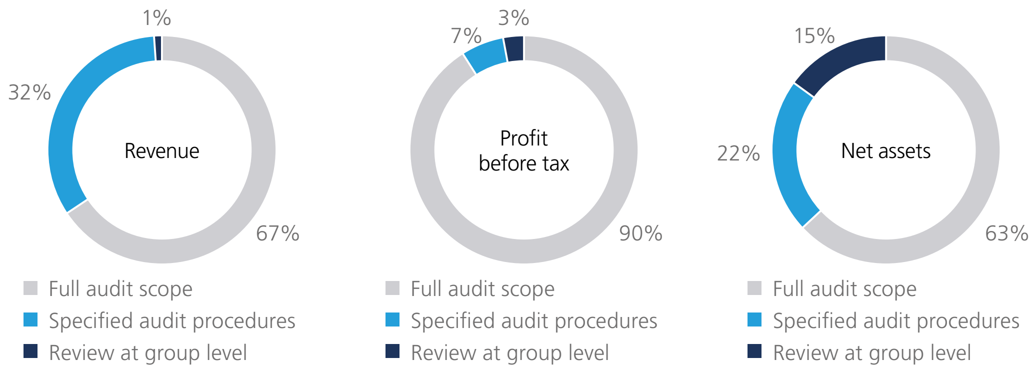
6.3. ERROR REPORTING THRESHOLD

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £11,000 (2019: £11,000), 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 specified audit procedures 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% (2019: 99%) of revenue, 97% (2019: 97%) of profit before tax and 85% (2019: 85%) of net assets. The Group audit team approved component materiality levels, which ranged from £77,000 to £176,000 (2019: £77,000 to £176,000) having regard to the mix of size and risk profile of the Group across the components. 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.



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. Due to the Covid-19 pandemic the Group engagement partner was unable to visit any of the component teams outside the UK.

Various telephone conference meetings were held with the auditors in all the jurisdictions.

8. OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, we do not express any form of assurance conclusion thereon.

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 course of our 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 this regard.

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. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO IRREGULARITIES

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, actuarial and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: the allocation and impairment of goodwill relating to the Gibraltar CGUs, Call options valuations, the valuation of the acquired Berkeley Burke entities' client portfolios as part of the acquisition accounting and the provisioning for potential complaints as a result of the UK Court of Appeal decision "Adams -v- Options UK Personal Pensions LLP". In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Isle of Man Companies Act 2006, AIM Listng Rules, financial services legislation related to regulated subsidiaries and tax legislation for the jurisdiction in which the Group operates.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the regulated subsidiaries within the group's operating licence and regulatory capital and solvency requirements.

11.2. AUDIT RESPONSE TO RISKS IDENTIFIED

As a result of performing the above, we identified the allocation and impairment of goodwill relating to the Gibraltar CGUs, Call options valuations, the valuation of the acquired Berkeley Burke entities' client portfolios as part of the acquisition accounting and the provisioning for potential complaints as a result of the UK Court of Appeal decision "Adams -v- Options UK Personal Pensions LLP" as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the audit committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities in the jurisdiction the Group operates; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

12. 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
10 May 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year from 1 January 2020 to 31 December 2020

	Notes	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
REVENUE	8,10	23,982	23,251
Administrative expenses	11	(20,412)	(19,776)
Profit before other items	12	**3,570**	3,475
OTHER ITEMS			
Bargain purchase gain		—	1,702
Gains on revaluation of financial instruments	7	59	416
Finance costs		(246)	(325)
Depreciation and amortisation	15, 16	(1,363)	(1,345)
Profit before taxation		**2,020**	3,923
Taxation	14	(413)	(520)
Profit after taxation		**1,607**	3,403
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		(1)	(97)
Total other comprehensive loss		(1)	(97)
Total comprehensive income for the year		**1,606**	3,306
Profit attributable to:			
Owners of the Company		1,777	3,756
Non-Controlling Interests		(170)	(353)
		1,607	3,403
Total comprehensive income attributable to:			
Owners of the Company		1,776	3,659
Non-Controlling Interests		(170)	(353)
		1,606	3,306
Earnings per share basic (pence)	23	2.70	5.73
Earnings per share diluted (pence)	23	**2.70**	5.64

The results for 2020 relate to continuing activities. Discontinued activities in 2019 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 2020

	Notes	31 December 2020 £000	31 December 2019 £000
ASSETS			
Non-current assets			
Property, plant and equipment	15	1,970	2,953
Intangible assets	16	19,912	20,488
Financial assets	7	475	416
Deferred tax asset		75	92
Total non-current assets		**22,432**	23,949
Current assets			
Accrued income		1,319	1,186
Trade and other receivables	18	9,073	5,765
Cash and cash equivalents	19	16,409	18,406
Assets held for sale	20	5,978	—
Total current assets		**32,779**	25,357
Total assets		**55,211**	49,306
EQUITY			
Called up share capital	21	59	59
Share premium account	21	22,372	22,372
Retained earnings		13,541	12,536
Other reserves		(447)	(446)
Equity attributable to owners of the Company		**35,525**	34,521
Non-controlling interest		**(445)**	(275)
Total equity		**35,080**	34,246
LIABILITIES			
Current liabilities			
Liabilities for current tax		1,197	1,083
Trade and other payables	24	14,974	11,634
Liabilities directly associated with assets held for sale	20	1,154	—
Total current liabilities		**17,325**	12,717
Non-current liabilities			
Other payables	25	2,806	2,343
Total non-current liabilities		2,806	2,343
Total liabilities and equity		**55,211**	49,306

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 10 May 2021 and were signed on its behalf by:

AR Kentish
Chief Executive Officer

TG Neish
Chief Financial Officer

10 May 2021

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	31 December 2020 £000	31 December 2019 £000
ASSETS			
Non-current assets			
Property, plant and equipment	15	249	283
Intangible assets	16	1,097	260
Financial assets	7	475	416
Investments	17	20,809	21,030
Total non-current assets		**22,630**	21,989
Current assets			
Trade and other receivables	18	12,074	9,873
Cash and cash equivalents	19	2,257	2,273
Total current assets		**14,331**	12,146
Total assets		**36,961**	34,135
EQUITY			
Called up share capital	21	59	59
Share premium account	21	22,372	22,372
Retained earnings		2,172	2,982
Other reserves		162	162
Total equity attributable to equity shareholders		**24,765**	25,575
LIABILITIES			
Current liabilities			
Trade and other payables	24	11,148	8,560
Total current liabilities		**11,148**	8,560
Non-current liabilities			
Other payables	25	1,048	—
Total non-current liabilities		1,048	—
Total liabilities and equity		**36,961**	34,135

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 10 May 2021 and were signed on its behalf by:

AR Kentish
Chief Executive Officer

TG Neish
Chief Financial Officer

10 May 2021

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year from 1 January 2020 to 31 December 2020

	Notes	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
OPERATING ACTIVITIES			
Profit for the year before tax		2,020	3,923
ADJUSTMENTS FOR:			
Depreciation of property, plant and equipment	15	793	773
Amortisation of intangible assets	16	570	572
Write-off of intangible assets	16	—	71
Loss on sale of fixed asset		—	5
Taxation paid		(299)	(345)
Bargain purchase gain		—	(1,702)
Unrealised gains on financial instruments at FVTPL	7	(59)	(416)
Share based payments		—	18
(Increase)/decrease in trade and other receivables	6,18,20	(215)	827
Increase in accrued income		(485)	(301)
Decrease in trade and other payables	6,20,24	(12)	(326)
Net cash from operating activities		**2,313**	3,099
INVESTING ACTIVITIES			
Disposal of investments		—	74
Purchase of property, plant and equipment	15	(70)	(117)
Increase in intangible assets	16	(875)	(160)
Consideration paid on acquisition of subsidiary	6	(1,447)	(350)
Cash acquired on acquisition of subsidiary	6	27	1,116
Reclassification to assets held for sale	20	(725)	—
Net cash used in investing activities		**(3,090)**	563
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank loans	24,25	1,600	1,200
Bank loan repayments	24	(1,200)	(1,650)
Lease liabilities paid		(843)	(745)
Treasury shares purchased		—	(117)
Dividends paid	21	(772)	(1,218)
Net cash from financing activities		**(1,215)**	(2,530)
(Decrease)/increase in cash and cash equivalents		**(1,992)**	1,132
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Analysis of cash and cash equivalents during the year			
(Decrease)/Increase in cash and cash equivalents		(1,992)	1,132
Effect of movements in exchange rates on cash and cash equivalents		(5)	7
Balance at start of year		18,406	17,267
Balance at end of year	19	**16,409**	18,406

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

For the year from 1 January 2020
to 31 December 2020

	Share capital £000	Share premium £000	Retained earnings £000	Treasury shares £000	Foreign currency translation reserve £000	Shares based payments reserve £000	**Total £000**	**Non-Controlling Interests £000**	**Total Equity £000**
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	—	—	—	—	—	—	—	78	78
At 31 December 2019 and 1 January 2020	**59**	**22,372**	**12,536**	**(549)**	**(59)**	**162**	**34,521**	**(275)**	**34,246**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD									
Profit for the year	—	—	1,777	—	—	—	1,777	(170)	1,607
Other comprehensive income									
Foreign currency translation differences	—	—	—	—	(1)	—	(1)	—	(1)
Transactions with owners, recorded directly in equity									
Dividend paid	—	—	(772)	—	—	—	(772)	—	(772)
Treasury shares purchased	—	—	—	—	—	—	—	—	—
Share based payments	—	—	—	—	—	—	—	—	—
At 31 December 2020	**59**	**22,372**	**13,541**	**(549)**	**(60)**	**162**	**35,525**	**(445)**	**35,080**

STATEMENT OF COMPANY CHANGES IN EQUITY

For the year from 1 January 2020
to 31 December 2020

	Share capital £000	Share premium £000	Retained earnings £000	Share based payments £000	**Total £000**
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 and 1 January 2020	**59**	**22,372**	**2,982**	**162**	**25,575**
Loss for the year	—	—	(38)	—	(38)
Shares issued in year	—	—	—	—	—
Share based payments	—	—	—	—	—
Dividend paid	—	—	(772)	—	(772)
At 31 December 2020	**59**	**22,372**	**2,172**	**162**	**24,765**

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 2020 comprise the Company and its subsidiaries (see Note 31) (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") 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 Directors have prepared the financial statements on a going concern basis, as in their opinion the Group is able to meet its obligations as they fall due for a period of at least 12 months from the date of this report. In considering this requirement, the Directors have considered the three-year business plan, three-year budgets and rolling cashflow forecasts for the forthcoming 18-month period. In addition, the risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months. These show that the Group should continue to be cash generative, and have sufficient resources to meet its business objectives, both in the short-term and in relation to its strategic priorities.

Having due regard to these matters the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the forthcoming 12 months. As such, the Board continues to adopt the going concern basis in preparing the financial statements.

c. Functional and presentation currency

These consolidated financial statements are presented in Pounds 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 3(b)(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 3(c) – revenue recognition: timing of the satisfaction of performance obligations and recognition of revenue either over time or at a point in time;

Note 16 – Determination of identifiable cash-generating units.

Note 27 – Determination as to whether a provision is required or this remains a contingent liability;

ii. Assumptions and estimates

Assumptions and estimation uncertainties at 31 December 2020 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 3(d) – Accrued income: the recognition of income prior to the submission of an invoice based on the estimated amount recoverable for work performed;

Notes 4(c) - Insurance technical reserve: this is calculated based on key actuarial assumptions by the insurance companies' appointed independent actuary;

Note 6 – Valuation of acquired client portfolio;

Note 7 – Valuation of call options;

Note 16 - Measurement of goodwill: the key assumptions used in determining whether goodwill has been impaired at each annual impairment review;

Note 27 – Measurement of provisions: assumptions about the likelihood and magnitude of an outflow of resources;

Notes 3(m) and 28 - Measurement of ECL allowance for trade receivables and contract assets: key assumptions in determining lifetime excepted credit loss rates are historical default rates.

2. BASIS OF PREPARATION *(continued)*

e. Basis of measurement

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

f. Employee benefit trusts

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of consolidation

i. Subsidiaries

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

ii. Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

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 where a change in the fair value of contingent consideration is the result of additional information about facts and circumstances that existed at the acquisition date. These changes are accounted for as measurement period adjustments if they arise during the measurement period. Changes resulting from events after the acquisition date do not impact goodwill but are accounted for separately.

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. NCI will be allocated its share of profit or loss and its share of each component of other comprehensive income in subsequent periods.

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 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 10 and is recognised in the statement of comprehensive income when the Group completes performance obligations and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d. Accrued income

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

e. Property, plant and equipment

i. Recognition and measurement

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

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

ii. Depreciation

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

h. Leases

IFRS 16 Leases replaced the requirements in IAS 17 Leases and related interpretations, and was applicable for the first time for entities with an annual reporting period beginning on or after 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.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k. Income tax expense (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m. Impairment (continued)

i. Non-derivative financial assets (continued))

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

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

Write-off

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

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 being the higher of the fair value less costs of disposal or value in use 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 transaction costs and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

q. Provisions

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 9).

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 either a potential loss is probable but difficult to quantify or a potential loss can be reliably quantified but is not probable. On both occasions a contingent liability would be disclosed.

v. New standards and interpretations

The Group has initially adopted Definition of a Business (Amendments to IFRS 3) from 1 January 2020.

A number of other new standards are also effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

The Group applied Definition of a Business (Amendments to IFRS 3) to business combinations whose dates of acquisition are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets. The amendments do not have a material effect on the Group's financial statements. However, the Group has amended its accounting policies for acquisitions on or after 1 January 2020. The details of accounting policies are set out in Note 3(a)(ii).

A number of new standards are effective for annual periods beginning after 1 January 2021 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 IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2 (issued on 27 August 2020);
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (issued on 25 June 2020);
- COVID-19-Related Rent Concessions (Amendment to IFRS 16).

In addition, IFRS 17 Insurance Contracts is effective for annual periods beginning after 1 January 2023. 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.

w. 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.

x. Investment in subsidiaries

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

y. Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any goodwill directly allocated to the group of assets to be disposed of is also treated as held for sale. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee benefit assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

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 was fully released in 2019 following an assessment performed by the appointed actuary of the life assurance companies. Therefore, the balance of this reserve was nil as at 31 December 2019. This reserve is calculated using assumptions based on factors considered by the actuary and management believe this is approximate to the fair value. There have been no changes to the fair value of the reserve as at 31 December 2020.

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

The Group had no discontinued operations in 2020.

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 proportion of the other services segment was not previously classified as held-for-sale or as a discontinued operation.

Results of the discontinued operation were as follows:

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

The profit from the discontinued operation is attributable entirely to the owners of the Company. During 2019 the discontinued operation contributed £36,000 to the Group's net operating cashflows.

6. ACQUISITION OF SUBSIDIARY

On 13 August 2020, the Group acquired 100% of the share capital of Berkeley Burke (Financial Services) Ltd ("BBFS") and Berkeley Burke Employee Benefit Consultants Ltd ("EBC"), referred to jointly as the BB companies, from Berkeley Burke Group Limited, which together provide administration and consultancy services to Small Self-administered Pension schemes ("SSAS") in the UK and to large and medium sized UK and international businesses, delivering pension solutions for their UK and overseas employees.

The SSAS business will allow for efficiency gains when it is integrated into the Group's existing UK operations, and the UK and international group pension plan business will strengthen our position in that sector. In addition, the acquisition allowed the Group to enter a new market – the group pension plan business – providing the growth opportunities in the UK.

The acquisition has been accounted for using the acquisition method. Transaction costs incurred on the acquisition total £88,000 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	1,447
Deferred consideration	700
Total consideration transferred	**2,147**

The initial cash payment was made at the date of signing the Sale & Purchase Agreement. The deferred consideration is due for payment within 10 days following the first-year anniversary date of the completion accounts being 31 July 2021. The deferred consideration is dependent on revenue generated from the acquired clients.

The following table summarises the fair value of the identifiable assets and liabilities assumed of the acquired companies as at the acquisition date:

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Client portfolio	1,500	1,500	—
Accrued income	112	—	112
Debtors	157	—	157
Cash at bank	27	—	27
Liabilities	(225)	—	(225)
Deferred tax liabilities on client portfolio	(270)	(270)	—
Total identifiable assets	**1,301**	**1,230**	**71**

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 £300,000 relating to the BBFS portfolio and £1,200,000 related to the EBC portfolio were recognised.

The client portfolios have 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 assumptions used for the valuation of the client portfolios were as follows:

Attrition rate	7% - 12%
Discount factor	13%

A movement of +/- 1% on the above assumptions results in a range of values of £1,467,000 to £1,611,000.

From the date of acquisition the Berkeley Burke companies have generated revenue of £699,000 and profit of £261,000. If the acquisition had occurred on 1 January 2020, management estimates that consolidated revenue would have been £1,702,000 and consolidated profit would have been £545,000.

6. ACQUISITION OF SUBSIDIARY *(continued)*

Goodwill arising from the acquisition has been recognised as follows:

	£000
Total acquisition cost	2,147
Fair value of identifiable net assets	(1,301)
Goodwill	**846**

7. CALL OPTIONS TO ACQUIRE NON-CONTROLLING INTERESTS

As part of the acquisition of Carey Administration Holdings Limited, the Group entered into call option agreements to acquire the non-controlling interests in Options Pensions UK LLP and Options 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 of these entities for the year ended 31 December 2021. The fair value of the call options as at acquisition date and as at 31 December 2019 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.

As at 31 December 2020 these call options were valued at £475,000.

The assumptions used for the valuations of the call options as at 31 December 2020 and 31 December 2019 were as follows:

	Options Pensions UK LLP		Options Corporate Pensions UK	
	2020	2019	**2020**	2019
Income growth rate	2%	2%	2%	2%
Cost growth rate	2%	4%	3%	6%
Discount factor	13%	13%	13%	13%

A movement of +/- 1% on the above assumptions results in a range of values of £184,000 to £1,151,000.

8. 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 internally calculated 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	**2020 £000**	2019 £000
Pensions	16,488	14,074
Life Assurance	3,709	4,768
Corporate Trustee Services	3,167	3,662
Other Services	618	747
Total	**23,982**	23,251

8. SEGMENTAL INFORMATION *(continued)*

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

	Turnover	
Geographical Segment	**2020 £000**	2019 £000
Gibraltar	7,999	9,329
Malta	7,625	7,542
United Kingdom	6,379	3,964
Jersey	1,483	1,901
Other	496	515
Total	**23,982**	23,251

9. LIFE ASSURANCE OPERATING SEGMENT

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

For the purposes of these consolidated financial statements, only the shareholders' funds and surplus that emerges on the long-term fund have been included. The assets invested by the Life Assurance clients are determined by either the client or their advisor and are segregated from the assets and liabilities of other clients. Therefore, the Group considers that it does not control the investment decision nor 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 £23,982,000 (2019: £23,251,000) there is an amount of £3,709,000 (2019: £4,768,000) relating to revenues attributable to the life assurance businesses.

10. REVENUE

	31 December 2020 £000	31 December 2019 £000
Revenue from administration of assets	23,982	23,251
Total revenues	**23,982**	23,251

11. ADMINISTRATIVE EXPENSES

Included within administrative expenses are personnel costs as follows:

	31 December 2020 £000	31 December 2019 £000
Wages and salaries	11,634	11,180
Social insurance costs	522	502
Pension contributions	156	199
Share based payments	—	18
Total personnel expenses	**12,312**	11,899

Average number of employees

Group	**31 December 2020 Number**	31 December 2019 Number
Average number of people employed (including Executive Directors)	**287**	268

Company	**31 December 2020 Number**	31 December 2019 Number
Average number of people employed (including Executive Directors)	**34**	23

12. PROFIT BEFORE OTHER ITEMS

Profit before other items of £3,570,000 (2019: £3,475,000), was arrived at after charging the following to the income statement:

	31 December 2020 £000	31 December 2019 £000
Directors' remuneration	827	809
Auditor's remuneration for audit	394	367
Auditor's remuneration for non-audit services	42	36

13. RECONCILIATION OF REPORTED TO UNDERLYING MEASURES

	REVENUE		PROFIT BEFORE OTHER ITEMS		PROFIT BEFORE TAX	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
REPORTED MEASURE	23,982	23,251	3,570	3,475	2,020	3,923
Less: release on technical reserve	—	(946)	—	(946)	—	(946)
Add: adjustment due to revenue recognition policy changes on acquisition	—	606	—	606	—	606
Less: bargain purchase gain on acquisition and gain on call options	—	—	—	—	(59)	(2,118)
Add: integration and acquisition costs	—	—	179	461	179	461
Add: other non-recurring costs	—	—	285	639	285	639
Underlying measure	23,982	22,911	4,034	4,235	2,425	2,565

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.

14. TAXATION

	31 December 2020 £000	31 December 2019 £000
Current tax expense	439	536
Release of deferred tax assets on leases as per IFRS 16	17	12
Release of deferred tax liabilities on acquired client portfolios	(43)	(28)
Total tax expense	**413**	520

RECONCILIATION OF EXISTING TAX RATE	2020	31 December 2020 £000	2019	31 December 2019 £000
Profit before tax for the year		2,020		3,923
Income tax using the Company's domestic rate	**0.00%**	—	0.00%	—
Effect of tax rates in other jurisdictions	21.73%	439	13.67%	536
Release of deferred tax assets on leases as per IFRS 16	0.84%	17	0.31%	12
Release of deferred tax liabilities on acquired client portfolios	(2.13%)	(43)	(0.72%)	(28)
Total tax expense		**413**		520
Effective tax rate (%)		**20.45%**		13.26%

15. 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 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 and 1 January 2020	**15**	**2,099**	**641**	**5,722**	**8,477**
Additions	—	70	—	—	70
Reclassification to assets held for sale (Note 20)	—	(410)	(164)	(319)	(893)
Disposals	—	—	—	—	—
As at 31 December 2020	**15**	**1,759**	**477**	**5,403**	**7,654**
DEPRECIATION					
As 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 and 1 January 2020	**10**	**1,379**	**381**	**3,754**	**5,524**
Charge for the year	1	171	37	584	793
Reclassification to assets held for sale (Note 20)	—	(357)	(58)	(218)	(633)
Disposals	—	—	—	—	—
As at 31 December 2020	**11**	**1,193**	**360**	**4,120**	**5,684**
Net Book Value					
As at 31 December 2019	5	720	260	1,968	2,953
As at 31 December 2020	**4**	**566**	**117**	**1,283**	**1,970**

COMPANY	Office Equipment £000
COSTS	
As at 1 January 2019	733
Additions at cost	1
Disposals	—
As at 31 December 2019 and 1 January 2020	**734**
Additions at cost	9
Disposals	—
As at 31 December 2020	**743**
DEPRECIATION	
As at 1 January 2019	403
Charge for the year	48
Disposals	—
As at 31 December 2019 and 1 January 2020	**451**
Charge for the year	43
Disposals	—
As at 31 December 2020	**494**
Net Book Value	
As at 31 December 2019	283
As at 31 December 2020	**249**

16. INTANGIBLE ASSETS

GROUP	Goodwill £000	Client Portfolio £000	Product Development £000	IT Development £000	**Total £000**
COSTS					
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 and 1 January 2020	**16,490**	**4,242**	**613**	**423**	**21,768**
Acquired through business combination (Note 6)	846	1,500	—	—	2,346
Additions	—	—	10	865	875
Reclassification to assets held for sale (Note 20)	(3,227)	—	—	—	(3,227)
Balance at 31 December 2020	**14,109**	**5,742**	**623**	**1,288**	**21,762**
AMORTISATION AND IMPAIRMENT					
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 and 1 January 2020	**26**	**674**	**430**	**150**	**1,280**
Charge for the year	—	469	17	84	570
Balance at 31 December 2019 and 1 January 2020	**26**	**1,143**	**447**	**234**	**1,850**
CARRYING AMOUNTS					
At 31 December 2019	16,464	3,568	183	273	20,488
At 31 December 2020	**14,083**	**4,599**	**176**	**1,054**	**19,912**

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 2020, and reflects the difference between the identifiable net asset value of those acquisitions and the total consideration incurred for those acquisitions.

Following management's commitment to exit the Group's non-core activities the goodwill allocated to these CGUs has been reclassified as assets held for sale (see Note 20).

Goodwill needs to be allocated to the smallest identifiable group of assets that generate largely independent cashflows. Historically, these cash generating units have been identified as the jurisdictions in which the acquisitions were made. Whilst the synergies in Gibraltar remain, following the Group's decision to exit its non-core activities management have reassessed the number of CGUs and determined that there are four identifiable cashflows and thus the CGU can be broken down further.

Following the post year end sale of the Gibraltar CTS business (see Note 32), the goodwill of £2,250,000 for which has been reclassified as assets held for sale, the remaining Gibraltar goodwill is now three separate CGUs with values of £7,766,000, £3,698,000 and £1,725,000. This goodwill breakdown has been determined by reference to the recoverable amount being the higher of the fair value less costs of disposal or value in use of each cash generating unit.

The Group tests goodwill annually for impairment. Historically the Group has determined the recoverable amounts of the CGUs to be the value in use which has been derived at using board approved projections for a year. The following four years cashflows have been calculated based on growth rates as detailed below. As goodwill is considered to have an indefinite life the year 5 net cashflow has been extrapolated to perpetuity. A post- tax discount rate of 13% has been used in discounting the projected cashflows. Sensitivities applied for turnover range from -1% to 5% based on the historical performance and management experience of the various markets and internal strategies.

Based on the impairment review carried out as detailed above, no impairment loss was deemed necessary in the current financial year.

16. INTANGIBLE ASSETS *(continued)*

Client portfolio

Client portfolio represents the value assigned to the individual client portfolios acquired through the acquisitions as follows:

	Acquisition date	31 December 2020 £000	31 December 2019 £000
London & Colonial Holding Ltd	October 2016	583	683
STM Nummos Life SL	January 2018	299	338
Harbour Pensions Ltd	February 2018	729	813
Options Corporate Pensions UK Limited	February 2019	569	639
Options UK Personal Pensions LLP	February 2019	975	1,095
Berkeley Burke (Financial Services) Limited	August 2020	289	—
Berkeley Burke Employee Benefit Consultants Limited	August 2020	1,155	—
Total		**4,599**	**3,568**

The Group's client portfolios are amortised over the useful lives which have been determined to be ten years.
The client portfolio of STM Nummos Life SL was reclassified from goodwill in January 2018.

COMPANY	Product Development £000	IT Development £000	**Total £000**
COSTS			
Balance as at 1 January 2019	367	51	418
Additions	20	63	83
As at 31 December 2019 and 1 January 2020	**387**	**114**	**501**
Additions	9	851	860
As at 31 December 2020	**396**	**965**	**1,361**
AMORTISATION AND IMPAIRMENT			
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 and 1 January 2020	**227**	**14**	**241**
Charges for the year	13	10	23
As at 31 December 2020	**240**	**24**	**264**
CARRYING AMOUNTS			
As at 31 December 2019	160	100	260
As at 31 December 2020	**156**	**941**	**1,097**

17. INVESTMENTS

Company – Investments in subsidiaries

ACQUISITIONS OF THE COMPANY	31 December 2020 £000	31 December 2019 £000
SHARES IN GROUP UNDERTAKINGS		
Balance at start of year	21,030	21,092
Struck off dormant entities	(221)	(62)
Balance at end of year	**20,809**	21,030

18. TRADE AND OTHER RECEIVABLES

GROUP	31 December 2020 £000	31 December 2019 £000
Trade receivables	3,450	3,908
Receivables due from insurers (Notes 24,27)	3,600	—
Prepayments	634	621
Other receivables	1,389	1,236
Total	**9,073**	5,765

COMPANY	31 December 2020 £000	31 December 2019 £000
Receivables due from related parties	11,097	9,009
Other receivables	977	864
Total	**12,074**	9,873

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 28.

19. CASH AND CASH EQUIVALENTS

GROUP	31 December 2020 £000	31 December 2019 £000
Bank balances	16,409	18,406
Cash and cash equivalents in the statement of cash flows	16,409	18,406
Bank loan (Notes 24,25)	(1,600)	(1,200)
Net funds	**14,809**	17,206

COMPANY	31 December 2020 £000	31 December 2019 £000
Bank balances	2,257	2,273
Cash and cash equivalents	2,257	2,273
Bank loan (Notes 24,25)	(1,600)	(1,200)
Net funds	**657**	1,073

Within cash and cash equivalents held by the Group there is a balance of £2,566,000 (2019: £4,287,000) which is not available for use by the Group as most of it is in a blocked account as part of Options Corporate regulatory requirement. The balance relates to funds collected on behalf of clients and yet to be paid across to the relevant authority bodies.

20. DISPOSAL GROUP HELD FOR SALE

At 31 December 2020 management was committed to exit the non-core element of the Group's activities. Accordingly, net assets together with the goodwill allocated to these businesses are presented as a disposal group held for sale. Efforts to sell the disposal group have started and the sales of the Gibraltar and Jersey CTS businesses were completed subsequent to the year-end (see Note 32).

The impairment review for the goodwill of the assets held for sale has been carried out by determining the recoverable amount based on fair value less costs of disposal. No impairment loss was deemed necessary in the current financial year as a result of the impairment review.

Assets and liabilities of disposal group held for sale

At 31 December 2020, the disposal group was stated at fair value less costs to sell and comprised the following assets and liabilities:

	31 December 2020 £000
Property, plant and equipment	260
Goodwill	3,227
Accrued income	463
Trade and other receivables	1,303
Cash and cash equivalents	725
Assets held for sale	**5,978**
Trade and other payables	1,154
Liabilities held for sale	**1,154**

Cumulative income or expenses included in OCI

There are no cumulative income or expenses included in OCI relating to the disposal group.

21. CAPITAL AND RESERVES

AUTHORISED, CALLED UP, ISSUED AND FULLY PAID	31 December 2020 £000	31 December 2019 £000
59,408,088 ordinary shares of £0.001 each (2019: 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 shares at 31 December 2020 and 31 December 2019.

Share premium

There were no new shares issued during the years ended 31 December 2020 and 31 December 2019.

Translation

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

Dividends

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

	31 December 2020 £000	31 December 2019 £000
1.3 pence per qualifying ordinary share (2019: 2.0 pence)	772	1,218

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 2020 £000	31 December 2019 £000
0.85 pence per qualifying ordinary share (2019: 0.75 pence)	505	446

22. SHARE BASED PAYMENTS

There was no Long-Term Incentive Plan in place during the year. As such the charge for the year which has been recognised within the share based payment reserve is £nil.

The prior year charge was £18,000 calculated as follows.

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.

22. SHARE BASED PAYMENTS *(continued)*

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.

23. EARNINGS PER SHARE

Earnings per share for the year from 1 January 2020 to 31 December 2020 is based on the profit after taxation of £1,607,000 (2019: £3,403,000) divided by the weighted average number of £0.001 ordinary shares during the year of 59,408,088 basic (2019: 59,408,088) and 59,408,088 dilutive (2019: 60,365,759) in issue.

A reconciliation of the basic and diluted number of shares used in the year ended 31 December 2020 is:

	31 December 2020	31 December 2019
Weighted average number of shares	59,408,088	59,408,088
Share incentive plan (Note 22)	—	957,671
Diluted	**59,408,088**	60,365,759

24. TRADE AND OTHER PAYABLES

GROUP	**31 December 2020 £000**	31 December 2019 £000
Deferred income	3,647	4,193
Provision (Notes 18,27)	3,600	—
Trade payables	368	466
Bank loan	552	1,200
Lease liabilities	783	795
Deferred consideration	700	39
Other creditors and accruals	5,324	4,941
Total	**14,974**	11,634

COMPANY	**31 December 2020 £000**	31 December 2019 £000
Owed to related parties	9,548	6,983
Bank loan	552	1,200
Accruals	731	121
Other creditors and accruals	317	256
Total	**11,148**	8,560

Deferred income consists of fixed fee revenues billed in advance to clients which have not yet been earned as at the year end. These amounted to £3,649,000 as at 31 December 2020 (2019: £4,193,000).

During the year the Company signed a credit facility with Royal Bank of Scotland (International) Ltd for £5.50 million. The facility has a 5-year term with capital repayments structure over ten years and a final instalment to settle the outstanding balance in full at the end of the 5 years. At the year-end £1.6 million of this facility had been drawn down and was outstanding. Interest on the drawn funds is charged at 3.5% per annum over the Sterling Relevant Reference Rate, with the undrawn balance charged at an interest rate of 1.75% per annum over the Sterling Relevant Reference Rate.

The facility is subject to customary cashflow to debt service liability ratios and EBITDA to debt service liability ratio covenants tested quarterly and is secured by a capital guarantee provided by a number of non-regulated holding subsidiary companies within the Group and debenture over these companies.

In addition, the Company fully repaid the bank loan of £1.2 million taken out in the year ended 31 December 2019.

The Group’s exposure to liquidity risk related to trade and other payables is described in Note 26.

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

GROUP	31 December 2020 £000	31 December 2019 £000
Lease liabilities	1,070	1,889
Bank loan	1,048	—
Deferred tax liabilities	522	295
Other payables	166	159
Total	**2,806**	2,343

COMPANY	31 December 2020 £000	31 December 2019 £000
Bank loan	1,048	—
Total	**1,048**	—

26. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

a. Credit risk

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

Trade and other receivables

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

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 £16,000 after tax (2019: £12,000).

26. FINANCIAL RISK MANAGEMENT *(continued)*

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 £29,000 after tax (2019: £28,000). This is mitigated by the fact that clients are invoiced in its and the Group's functional currency of Sterling (£).

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

f. Regulatory risk

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

g. Capital management

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

Furthermore, 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 24, 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 2020 suggests that the Group has sufficient liquidity to meet its obligations as they fall due. Net debt compared to equity at 31 December 2020 was as follows:

	31 December 2020 £000	31 December 2019 £000
Total liabilities	20,131	15,060
Less: cash and cash equivalents	16,409	18,406
Adjusted net debt	3,722	(3,346)
Total equity and adjusted equity	**35,525**	34,521
Adjusted net debt to adjusted equity ratio	**0.10**	(0.10)

27. PROVISION AND CONTINGENT LIABILITY

As stated in Note 3(q) 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 therefore believes it 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 and remains a contingent liability until an outflow of economic benefits is probable and the quantum can be reliably estimated.

27. PROVISION AND CONTINGENT LIABILITY *(continued)*

Following the Court of Appeal judgment on 1 April 2021 (see Note 32) the Group has considered the potential impact this might have on the outcome of other claims made by SIPP members in respect of non-performing assets. Whilst the final outcome of Mr Adams' case is not yet known, as Carey has sought permission to appeal to the Supreme Court, under IAS 37 – Provisions, Contingent Liabilities and Contingent Assets consideration has to be given as to whether such provisions can reliably be estimated as to the potential financial obligation which could arise in the future.

Furthermore, it is also recognised that the ruling made in Mr Adams' case was fact specific and included the exercise of discretion on the part of the Court of Appeal, and which was exercised in the context of those facts. The Court of Appeal has also at the time of this filing not determined the appropriate relief payable to Mr Adams. It is therefore difficult to assess the exact obligation that could arise on other claims based on this one case. An estimate has been arrived at by considering a cohort of claims which may be deemed to have similar characteristics to Mr Adams' claim. The value of this estimate, which has been reflected within trade and other payables, is £3,600,000. This is covered by professional indemnity insurance and thus has also been reflected within trade and other receivables.

With reference to the prejudicial exemption allowed under IAS 37, the Company will not disclose any further information about the assumptions for the provision, including any details about current and potential claims.

28. 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 2020 £000	31 December 2019 £000
Trade and other receivables	9,073	5,765
Cash and cash equivalents	16,409	18,406
Total	**25,482**	24,171

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 2020 and 31 December 2019.

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

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

	Gross receivables 31 December 2020 £000	**Individual impairment 31 December 2020 £000**	**Total £000**	Gross receivables 31 December 2019 £000	Individual impairment 31 December 2019 £000	Total £000
Not past due	1,623	—	1,623	1,641	—	1,641
Past due 0-30 days	268	—	268	801	—	801
Past due 31-120 days	160	—	160	322	—	322
More than 120 days past due	1,442	(43)	1,399	1,402	(258)	1,144
Total	**3,493**	**(43)**	**3,450**	4,166	(258)	3,908

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

28. FINANCIAL INSTRUMENTS *(continued)*

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

	31 December 2020 £000	31 December 2019 £000
Balance at start of year	258	304
Movement in bad debt allowance	81	76
Amounts written off	(126)	(75)
Amounts recovered	(27)	(47)
Reclassification to assets held for sale	(143)	—
Balance at end of year	**43**	258

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.

31 December 2020	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	368	368	368	—	—
Bank loan	1,600	1,734	332	327	1,075
Contingent consideration	700	700	700	—	—
Lease liabilities	1,889	2,017	425	444	1,148
Other creditors and accruals	5,324	5,324	5,324	—	—
Corporation tax payable	1,197	1,197	1,197	—	—
Total	**11,078**	**11,340**	**8,346**	**771**	**2,223**

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**

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 2020 £000	31 December 2019 £000
Balance as at 1 January	416	—
Additions	—	—
Total gains recognised in profit or loss	59	416
Balance as at 31 December	**475**	**416**

29. LEASES

In relation to leases under IFRS 16, the Group has charged depreciation and interest costs, rather than operating lease expenses. The Group recognised £584,000 (2019: £531,000) of depreciation charges and £115,000 (2019: £134,000) of interest expenses from these leases during the year ended 31 December 2020. The Group recognised £56,000 (2019: £56,000) of expenses relating to short-term leases or leases that can be cancelled with no penalties and £2,000 (2019: £4,000) of expenses for leases of low-value assets, excluding short-term leases, for the year ended 31 December 2020.

Lease liabilities

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

	31 December 2020 £000	31 December 2019 £000
Less than one year	869	876
Between one year and five years	1,148	2,017
More than five years	—	—
Total	**2,017**	**2,893**

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 three years.

30. RELATED PARTIES

Transactions with key management personnel and Directors' compensation

Key management compensation comprised:

	31 December 2020 £000	31 December 2019 £000
Short term employee benefits	823	791
Share based payments	—	18
Total	**823**	**809**

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 2020 (2019: 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 £4,139 for the period to 31 December 2020 (2019: £7,508), of which £nil was outstanding at 31 December 2020 (2019: £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 2020 the Group owed Fiander Properties Limited a company related to the Group by virtue of common ownership £22,000 (2019: £44,000).

The Company received dividends of £2,716,819 (2019: £2,200,608) from STM Malta Limited, £1,330,000 (2019: £2,512,813) from STM Fidecs Limited, £334,000 (2019: £2,446,000) from London & Colonial Holdings Limited and £101,959 from STM (Caribbean) Limited (2019: £nil).

31. GROUP ENTITIES

Principal subsidiaries

As at 31 December 2020 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 2020	Ownership interest 31 December 2019	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	Life assurance company
STM Nummos Life SL	Spain	100% indirectly	100% indirectly	Administration of clients' assets
STM Malta Pension Services Limited	Malta	100% indirectly	100% indirectly	Administration of clients' assets
London & Colonial Assurance PCC PLC	Gibraltar	100% indirectly	100% indirectly	Life assurance 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
Options Corporate Pensions UK Limited	England	80% indirectly	80% indirectly	Administration of clients' assets
Options UK Personal Pensions LLP	England	70% indirectly	70% indirectly	Administration of clients' assets
Berkeley Burke (Financial Services) Limited	England	100% indirectly	—	Administration of clients' assets
Berkeley Burke Employee Benefit Consultants Limited	England	100% indirectly	—	Administration of clients' assets

32. SUBSEQUENT EVENTS

a. Disposal of Gibraltar CTS and tax compliance businesses

On 23 March 2021 the Group disposed of its Gibraltar CTS and Tax Compliance businesses. The sale complements the Group's strategy to focus on its core activities of pension administration and life assurance. The sale companies are principally STM Fidecs Management Limited and STM Fiscalis Limited, along with a number of non-revenue generating support companies, including nominee companies. Together these companies generated revenue of £1,700,000 during 2020 and made a profit contribution of £300,000 to the Group's 2020 results.

The sale has four staged consideration payments totalling £2,450,000, with the amount payable upon completion being £1,250,000, with a further £500,000 six months after completion, and a further £375,000 12 months after completion. The final payment, which will be made based upon 2021 audited revenue, will amount to £325,000 and will be subject to an adjustment of 1.5 multiple for any revenue deficit below £1,567,000 or surplus above £1,600,000. The payment for net assets of approximately £570,000 will be made partly upon completion, with the remainder being paid over as and when debtors and work-in-progress are collected by the sale companies.

b. Disposal of Jersey based trust and company services businesses

On 8 May 2021 the Group disposed of its Jersey based trust and company services businesses. The sale companies are principally STM Fiduciaire Limited, along with a number of non-revenue generating support companies, including nominee companies. Together these companies generated revenue of £1,480,000 during 2020 and made a profit before tax contribution of £100,000 to the Group's 2020 results.

The sale has two staged consideration payments totalling £1,860,000, with the amount payable upon completion being £1,260,000, with the final payment of £600,000 being paid six months after completion. In addition, the sale agreement allows for a further consideration payment of 50% of any revenue surplus above £1,150,000 of revenue that is categorised as recurring revenue. This calculation will be based on the twelve months trading from date of completion. In addition to the consideration receivable from the buyer, certain net assets relating to debtors and work-in-progress are ringfenced by the sale companies for the benefit of the STM Group, and these will be paid as these assets are converted to cash at bank. It is anticipated that this will amount to £420,000 and will be principally received in the first six months post completion.

c. Appeal judgment in Adams v Carey case

On the 1 April 2021 the Court of Appeal handed down their judgment on the Adams v Carey (now renamed Options) case which had been heard remotely by video-conferencing in early March 2021. Mr Adams had appealed primarily two causes of action as follows:

1. that under the FCA's Conduct of Business Sourcebook rules (COBS) 2.1.1, Carey had failed to act fairly, honestly and in accordance with the best interests of its client; and
2. that, given the unregulated introducer 'advised' (for the purposes of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (RAO)) Mr Adams to purchase the investment, transfer his pension and establish the SIPP, and the introducer 'arranged' (for the purposes of the RAO) the underlying investment, without the necessary permissions and therefore in breach of the general prohibition under s19 of FSMA, that under s27 of the FSMA, Mr Adams' agreement with Carey should be unwound, and Carey should provide relief to Mr Adams.

The judgment dismissed the first claim but upheld the second. Permission to appeal this judgment has been filed with the Supreme Court on 29 April 2021. At the time of signing the financial statements the Supreme Court was yet to rule on this.

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 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 Wednesday, 23 June 2021. 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 resolutions.

Notice is hereby given that the AGM of the Company will be held on 24 June 2021 at 10.00am at Rockwood House, 9-17 Perrymount Road, Hayward's Heath, West Sussex, for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. To receive the Company's annual accounts for the financial year ended 31 December 2020, together with the Directors' Report and Auditors' Report.
2. To declare a final dividend of 0.85p per ordinary share.
3. To re-elect Duncan Crocker as a Director.
4. To re-elect Alan Kentish as a Director.
5. To re-elect Therese Neish as a Director.
6. To re-elect Pete Marr as a Director.
7. To re-elect Malcolm Berryman as a Director.
8. To re-elect Robin Ellison as a Director.
9. To re-elect Graham Kettleborough as a Director.
10. To reappoint Deloitte LLP as auditors.
11. To authorise the Directors to determine the auditors' remuneration.
12. THAT the Directors be generally and unconditionally authorised pursuant to and for the purposes of Article 5 of the Company's articles (the "Articles") 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 by the Articles) 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 2022, or, if earlier, the conclusion of the next AGM of the Company to be held in 2022 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

13. THAT, subject to the passing of resolution 12 in the notice of this meeting, the Directors are empowered to allot equity securities (as defined by the Articles) for cash, pursuant to the authority conferred on them by resolution 12 in the notice of this meeting or by way of sale of treasury shares, 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 13 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, subject to the passing of resolution 12 in the notice of this meeting and in addition to the power contained in resolution 13 set out in the notice of this meeting, the Directors are empowered to allot equity securities (as defined by the Articles) to any person for cash, pursuant to the authority conferred on them by resolution 12 in the notice of this meeting or by way of sale of treasury shares, 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 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.

15. THAT the Company be generally authorised pursuant to Article 5 to make market purchases (within the meaning of section 693(4) of the UK Companies Act 2006) 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 2022, or, if earlier, at the conclusion of the next AGM of the Company to be held in 2022 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.

16. THAT a general meeting, other than an annual general meeting, may be called on not less than 14 clear days' notice.

Further information on resolutions 12 to 15 can be found in the Explanatory Notes on the next page.

By order of the Board

Alex Small

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

Company number: 005398V

10 May 2021

Notes:

1. Resolutions 1 to 12 are to be proposed as Ordinary Resolutions. Resolutions 13 to 16 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 22 June 2021 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 12, 13, 14 & 15

Resolution 12 – Authority to allot relevant securities

Resolution 12 is proposed to renew the Directors' powers to allot shares. The Directors' existing authority, which was granted (pursuant to Article 3) at the AGM held on 17 June 2020 and will expire at the end of this year's AGM. Accordingly, paragraph (a) of resolution 12 would renew this authority by authorising the Directors 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 12(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 2022, or at 6pm on 30 June 2022, whichever is sooner, unless renewed or revoked prior to such time.

Resolutions 13 and 14 – Disapplication of statutory pre-emption rights

Resolutions 13 and 14 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 13 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 7 May 2021 (being the latest practicable date prior to the publication of this Notice).

Resolution 14 would give the Directors authority to allot a further 5% of the issued ordinary share capital of the Company as at 7 May 2021 (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 13 and 14 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 13 and 14 will expire at the conclusion of the AGM of the Company to be held in 2022 or at 6pm on 30 June 2022, whichever is sooner.

Resolution 15 – Authority to purchase Company's own shares

Resolution 15 seeks to grant the Directors authority (until 30 June 2022 or, if earlier, the next AGM to be held in 2022, 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 give them your support by voting in favour of all 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

Company Details

Registered Office
18 Athol Street
Douglas
Isle of Man IM1 1JA

Company Number
005398V

Company Secretary
Alex Small LLM ACG

Registrar
Computershare
13 Castle Street
St. Helier, Jersey CI
JE1 1ES
T +44 (0)1534 281 800

Advisers

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

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

Solicitors
Memery Crystal LLP
165 Fleet Street
London EC4A 2DY

Dougherty Quinn
The Chambers
5 Mount Pleasant
Douglas
Isle of Man IM1 2PU

Auditor

Deloitte LLP
Statutory Auditor
The Old Courthouse
Athol Street
Douglas
Isle of Man IM1 1LD

STM GROUP PLC

ISLE OF MAN

STM Group Plc
18 Athol Street
Douglas
Isle of Man
IM1 1JA

www.stmgroupplc.com
info@stmgroupplc.com

LONDON

STM Group Plc
Suite 315
5 Chancery Lane
London
EC4A 1BL

www.stmgroupplc.com
info@stmgroupplc.com

HAYWARDS HEATH

London & Colonial
Rockwood House
9-17 Perrymount Road
Haywards Heath
West Sussex
RH16 3TW

T (+44) 203 479 5505
www.londoncolonial.com

MILTON KEYNES

Options
Lakeside House
Shirwell Crescent
Furzton
Milton Keynes
MK4 1GA

T (+44) 330 124 1505
www.optionspensions.co.uk

MALTA

STM Malta
San Gwakkin Building Level 1
Triq is-Salib tal-Imriehel, Zone 4
Central Business District Birkirkara,
Malta
CBD4020

T (+356) 213 33 210
www.stmmalta.com
info@stmmalta.com

GIBRALTAR

STM Fidecs Group of Companies
Montagu Pavilion
8-10 Queensway
Gibraltar

T (+350) 200 42686
www.stmfidecs.gi
info@stmfidecs.gi

SPAIN

STM Nummos
Edif. Sotovila, Plaza Mayor
Pueblo Nuevo de Guadiaro
Sotogrande, 11311
Cádiz, Spain

T (+34) 956 794 781
www.stmnummos.com
info@stmnummos.com

STM GROUP PLC

ANNUAL REPORT & ACCOUNTS 2020

STMGROUPPLC.COM