Press Release 26 March 2019

STM Group Plc

("STM", "the Company" or "the Group")

Final Results for the

12 months ended 31 December 2018

STM Group Plc (AIM: STM), the multi-jurisdictional financial services group, is pleased to announce its audited final results for the 12 months ended 31 December 2018.

Financial Highlights:

- Revenue for the period £21.4 million (2017: £21.5 million)
  - Underlying* revenue for the period of £20.5 million (2017: £20.2 million)
- Profit before tax for the period of £4.0 million (2017: £4.0 million).
  - Underlying* Profit before tax for the period of £3.7 million (2017: £3.2 million)
- Underlying profit margins increased to 18% (2017: 16%)
- Recurring revenue** for 2018 of £16.3 million representing 76% of total revenue (2017: 75%)
- Final dividend of 1.3 pence per ordinary share recommended (2017: 1.2 pence)
- Strong balance sheet with net cash and cash equivalents of £15.6 million (31 December 2017: £15.1 million)

* Underlying statistics are net of certain transactions which do not form part of the regular operations of the business
** defined as annual management charges and contractual fixed fee agreements

Operational Highlights:

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

Commenting on the results and prospects for STM, Alan Kentish, Chief Executive Officer, said:

"We are pleased with another solid profitable year at STM, which has been coupled with significant operational progress within the Group. Our management, governance and risk structures have been strengthened to ensure that we are well placed to integrate our recent acquisitions, meet our industry compliance needs and can rely on a robust infrastructure to support future growth.

"Our markets continue to evolve and present opportunities for well funded operators. STM intends to be at the forefront of product development and sector consolidation and has a refined short-term strategy to maximise this opportunity."

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

For further information, please contact:

STM Group Plc	
Alan Kentish, Chief Executive Officer	Tel: 00 350 200 42686
alan.kentish@stmgroupplc.com	www.stmgroupplc.com
Therese Neish, Chief Financial Officer	Tel: 00 350 200 42686
therese.neish@stmgroupplc.com	
finnCap	www.finncap.com
Matt Goode / Simon Hicks – Corporate Finance	Tel: +44 (0) 20 7220 0500
Tim Redfern / Richard Chambers – ECM	
Walbrook	www.walbrookpr.com
Tom Cooper / Paul Vann	Tel: +44 (0) 20 7933 8780
	Mob: +44 (0) 797 122 1972
	tom.cooper@walbrookpr.com

Notes to editors:

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

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

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

Further information on STM Group can be found at www.stmgroupplc.com

Chairman's statement

It gives me great pleasure to present my first set of financial statements for STM as Chairman of the Board.

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

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

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

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

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

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

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

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

Duncan Crocker
Chairman

Chief Executive's statement

Introduction

I am pleased to present the annual results for STM Group Plc for the year ended 31 December 2018. It has seemed a long and busy year but despite some significant challenges and costs, I am pleased to say that the Group has performed in line with expectations and delivered an overall profit before tax of £4.0 million (2017: £4.0 million).

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

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

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

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

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

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

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

Financial Review

Performance in the year

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

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

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

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

* please see pensions section under Operational Overview below

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

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

Tax Charge and Earnings per Share

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

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

This impact of the slightly higher tax charge has resulted in earnings per share ("EPS") for 2018 of 6.20p compared to 6.69p for 2017. Diluted earnings per share takes into consideration the long-term incentive plan as approved by the shareholders at the Annual General Meeting on 18 May 2016 which stipulates a maximum dilution factor of 5% resulting in diluted EPS of 5.90p (2017: 6.37p).

Cashflows

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

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

Balance Sheet

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

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

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

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

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

Dividend Policy

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

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

Operational Overview

Pensions

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

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

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

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

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

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

Life assurance

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

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

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

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

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

Corporate and Trustee Services

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

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

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

Other trading divisions

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

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

Outlook

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

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

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

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

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

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

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

Alan Kentish
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

	Notes	**Year ended 31 December 2018 £000**	Year ended 31 December 2017 £000
Revenue	5	**21,401**	21,525
Administrative expenses	7	**(16,692)**	(16,760)
Profit before other items		**4,709**	4,765
OTHER ITEMS			
Finance costs		**(249)**	(262)
Depreciation and amortisation		**(427)**	(479)
Profit before taxation		**4,033**	4,025
Taxation		**(350)**	(51)
Profit after taxation		**3,683**	3,974
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		**3**	7
Total other comprehensive income		**3**	7
Total comprehensive income for the year		**3,686**	3,981
Earnings per share basic (pence)	12	**6.20**	6.69
Earnings per share diluted (pence)	12	**5.90**	6.37

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	**31 December 2018 £000**	31 December 2017 £000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**1,096**	1,240
Intangible assets	9	**18,966**	18,066
Total non-current assets		**20,062**	19,306
Current assets			
Investments		**74**	81
Accrued income		**787**	890
Trade and other receivables		**6,281**	5,607
Cash and cash equivalents	10	**17,267**	18,363
Total current assets		**24,409**	24,941
Total assets		**44,471**	44,247
EQUITY			
Called up share capital	11	**59**	59
Share premium account	11	**22,372**	22,372
Reserves		**10,631**	8,341
Total equity attributable to equity shareholders		**33,062**	30,772
LIABILITIES			
Current liabilities			
Liabilities for current tax		**908**	1,073
Trade and other payables		**10,501**	10,750
Total current liabilities		**11,409**	11,823
Non current liabilities			
Other payables		**—**	1,652
Total non-current liabilities		**—**	1,652
Total liabilities and equity		**44,471**	44,247

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

	Notes	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
OPERATING ACTIVITIES			
Profit for the year before tax		**4,033**	4,025
ADJUSTMENTS FOR:			
Depreciation and amortisation	8,9	**425**	478
Taxation paid		**(515)**	(54)
Foreign exchange loss		**—**	16
Unrealised loss/(gain) on investments		**7**	(10)
Share based payments		**55**	55
Increase in trade and other receivables		**(437)**	(414)
Decrease in accrued income		**103**	324
Decrease in trade and other payables		**(1,068)**	(456)
Net cash from operating activities		**2,603**	3,964
INVESTING ACTIVITIES			
Disposal of investments		**—**	4,950
Acquisition of property, plant and equipment	4,8	**(60)**	(617)
Consideration paid on acquisition	4	**(800)**	(800)
Cash acquired on acquisition	4	**302**	—
Increase in intangible assets	9	**(185)**	(84)
Net cash used in investing activities		**(743)**	3,449
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank loan		**(1,650)**	—
Treasury shares (purchased)/sold		**(206)**	25
Dividends paid	11	**(1,129)**	(951)
Net cash from financing activities		**(2,985)**	(926)
(Decrease)/Increase in cash and cash equivalents		**(1,125)**	6,487
Analysis of cash and cash equivalents during the year			
(Decrease)/Increase in cash and cash equivalents		**(1,125)**	6,487
Effect of movements in exchange rates on cash and cash equivalents		**29**	7
Balance at start of year		**18,363**	11,869
Balance at end of year	10	**17,267**	18,363

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY

FOR THE YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

	Share Capital £000	**Share premium £000**	**Retained earnings £000**	**Treasury Shares £000**	**Translation reserve £000**	**Share based payments reserve £000**	**Total £000**
Balance at 1 January 2017	59	22,372	5,420	(251)	28	34	**27,662**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR							
Profit for the year	—	—	3,974	—	—	—	**3,974**
Other comprehensive income Foreign currency translation differences	—	—	—	—	7	—	**7**
Transactions with owners, recorded directly in equity							
Dividend paid	—	—	(951)	—	—	—	**(951)**
Share based payments	—	—	—	—	—	55	**55**
Treasury shares purchased	—	—	—	25	—	—	**25**
At 31 December 2017 and 1 January 2018	**59**	**22,372**	**8,443**	**(226)**	**35**	**89**	**30,772**
Adjustment on initial application of IFRS 15 (net of tax) (Note 3)	—	—	(116)	—	—	—	**(116)**
Adjusted balance at 1 January 2018	**59**	**22,372**	**8,327**	**(226)**	**35**	**89**	**30,656**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR							
Profit for the year	—	—	3,683	—	—	—	**3,683**
Other comprehensive income Foreign currency translation differences	—	—	—	—	3	—	**3**
Transactions with owners, recorded directly in equity							
Dividend paid	—	—	(1,129)	—	—	—	**(1,129)**
Share based payments	—	—	—	—	—	55	**55**
Treasury shares purchased	—	—	—	(206)	—	—	**(206)**
At 31 December 2018	**59**	**22,372**	**10,881**	**(432)**	**38**	**144**	**33,062**

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

1. Reporting entity

STM Group Plc (the “Company”) is a company incorporated and domiciled in the Isle of Man and was admitted to trading on AIM, a market operated by the London Stock Exchange, on 28 March 2007. The address of the Company’s registered office is 18 Athol Street, Douglas, Isle of Man, IM1 1JA. The Group is primarily involved in financial services.

2. Basis of preparation

The financial information, which comprises the consolidated statement of comprehensive income, consolidated statement of financial position, the statement of consolidated changes in equity, the consolidated statement of cash flows and the related notes, is derived from the full group financial statements for the year ended 31 December 2018, which have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with Isle of Man company law.

The financial statements have been prepared on a going concern basis under the historical cost convention, unless otherwise stated. The accounting policies applied in preparing the financial information are consistent with those used in preparing the consolidated financial statements for the year ended 31 December 2018.

3. Changes in significant accounting policies

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

IFRS 15

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods and services. With regards to the provision of services revenue is to be recognised either at the point of time or over a period of time based on when the service is transferred to the customer.

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

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

3. Changes in significant accounting policies cont.

IFRS 15 cont.

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

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

IFRS 15 did not have a significant impact on the revenue recognition policies of the Group's other operating segments as per Note 6.

IFRS 9

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement ("IAS 39")*.

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

4. Acquisition of subsidiary

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

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

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

Consideration for the acquisition is broken down as follows:

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

4. Acquisition of subsidiary cont.

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

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

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

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

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

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

Goodwill arising from the acquisition has been recognised as follows:

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

5. Revenue

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

6. Segmental Information

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

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

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

	Turnover	
Operating segment	**2018**	2017
	£000	£000
Pensions	**11,555**	10,157
Life Assurance	**4,669**	5,851
Corporate Trustee Services	**4,185**	4,341
Other Services	**992**	1,176
	21,401	21,525

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

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

7. Administrative expenses

Included within administrative expenses are personnel costs as follows:

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

Average number of employees

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

8. Property, plant and equipment

Group	**Motor Vehicles £000**	**Office Equipment £000**	**Leasehold Improvements £000**	**Total £000**
Costs				
As at 1 January 2017	15	1,814	894	2,723
Additions at cost	—	266	351	617
Disposals	—	(26)	(604)	(630)
As at 31 December 2017	**15**	**2,054**	**641**	**2,710**
As at 1 January 2018	15	2,054	641	2,710
Additions at cost	—	76	—	76
As at 31 December 2018	**15**	**2,130**	**641**	**2,786**
Depreciation				
As at 1 January 2017	3	1,036	795	1,834
Charge for the year	3	150	113	266
Disposals	—	(26)	(604)	(630)
As at 31 December 2017	**6**	**1,160**	**304**	**1,470**
As at 1 January 2018	6	1,160	304	1,470
Charge for the year	2	194	24	220
As at 31 December 2018	**8**	**1,354**	**328**	**1,690**
Net Book Value				
As at 31 December 2017	9	894	337	1,240
As at 31 December 2018	**7**	**776**	**313**	**1,096**

9. Intangible assets

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

Impairment testing for cash-generating units containing goodwill

All goodwill relates to the acquisitions made during the period from 28 March 2007 to 31 December 2018, and reflects the difference between the identifiable net asset value of those acquisitions and the total consideration incurred for those acquisitions.

9. Intangible assets cont.

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

	Gibraltar £000	**Spain £000**	**Jersey £000**	**Total £000**
At 31 December 2018	15,465	48	977	16,490

The Group tests goodwill annually for impairment with the recoverable amount being determined from value in use calculations which are based on board approved projections. A pre-tax discount rate of 13% has been used in discounting the projected cash flows. The sensitives applied for turnover growth range between -4% and 4% for the various CGUs and have been arrived at using past experience and knowledge of the various markets and internal strategies for each CGU. Similarly for expenses a growth rate of between 0% and 3% has been applied.

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

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

Client portfolio

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

10. Cash and cash equivalents

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

11. Capital and reserves

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

Treasury shares

The treasury shares relate to those shares purchased by the STM Group EBT for allocation to executives. The trustees held 869,780 (2017: 537,780) shares at 31 December 2018.

Share premium

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

Translation

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

Dividends

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

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

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

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

12. Earnings per share

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

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

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