STM GROUP PLC

Press Release 28 April 2020

STM Group Plc

(“STM”, “the Company” or “the Group”)

Final Results for the 12 months ended 31 December 2019

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 2019.

Financial Highlights:

	2019 (reported)	2019 (underlying)**	2018 (reported)	2018 (underlying)**
Revenue	£23.2m	£22.9m	£21.4m	£20.5m
Profit before other items*	£3.5m	£4.2m	£4.7m	£4.4m
Margin	*15%*	*18%*	*22%*	*21%*
Profit before taxation (“PBT”) (and exceptional bargain purchase gain)	£3.9m	£2.6m	£4.0m	£3.7m
Earnings per share	5.73p	N/A	6.20p	N/A
Cash at bank (net of borrowings)	£17.2m	N/A	£15.6m	N/A
Second interim dividend (2019) / final dividend (2018)	0.75p	N/A	1.30p	N/A
Total dividend	1.50p	N/A	2.00p	N/A

* Profit before other items is defined as revenue less operating expenses i.e. profit before taxation, finance income and costs, depreciation, amortisation, bargain purchase gain and gain on the call options
** Underlying statistics are net of certain transactions which do not form part of the regular operations of the business as further detailed in Table 2 below

Operational Highlights:

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

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

“2019 has been a year of transition for the Group as we move towards a more efficient and unified business. This has meant that the 2019 numbers have included some additional investments in infrastructure under our revised Operating Model, and we saw a timing delay in the uptake of certain new business initiatives, however despite that, we delivered a statutory profit before tax of £3.9 million for the year.

“The completion of the Carey acquisition occurred in February 2019, with all operational integration now finalised giving us one solid UK hub for our SIPP and Workplace pension solutions businesses from which to further expand. This expansion will be driven organically through the relaunch of our UK products under the new brand of “Options, for your tomorrow”. This growth will be complemented by selective acquisitions in the UK market.

“2020 has started with the unprecedented impact of the COVID-19 virus which has thrown the health, social and financial environments of the world into turmoil. It is likely the financial impact of this will have longer term implications on many industry sectors. The resilience of our business model will be tested, but we are confident that the nature of our annual recurring fees, which are predominantly based on a fixed quantum rather than a percentage of Assets Under Administration (‘AUA’), gives a high degree of visibility for the majority of our revenue for the foreseeable future. An assessment of our business has indicated that based on existing interest rates and current depressed financial markets only £0.4 million of our 2019 £18 million of recurring revenue is at risk with a similar consequential risk to profitability. As one would expect, our priority is to protect our colleagues and maintain our service levels to our customers; and in this regard the Board has implemented various business continuity plans to ensure that our colleagues can work productively from home. At this point in time we have not seen that these actions have added any material cost to the business.”

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

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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

I am pleased to present our 2019 financial statements which reflect a challenging year but nevertheless one of significant progress for delivering on the future aspirations of the STM business. I have also cross referenced below the dramatic impact to world economies being caused by COVID-19 and the potential consequential impact on the STM Group.

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

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

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

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

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

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

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

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

Duncan Crocker
Chairman

Chief Executive's statement

Introduction

2019 has been a year of transition Group-wide, not just in our operating model but across the various companies and product areas, to create a more efficient and unified business. The acquisition of Carey Pensions, completed in February 2019, added another positive dimension.

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

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

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

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

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

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

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

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

Financial Review

Performance in the year

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

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

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

Underlying profit before other items has remained similar between the years, with £4.2 million in 2019 and £4.4 million in 2018. However, 2019 includes the impact of applying IFRS 16: Leases, which for 2019 reduced operating expenses by £0.7 million and increased depreciation and interest charges by this amount.

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

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

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

Table 1			
KPI	**Definition**	**2019 result**	**2018 result**
Revenue (£'000s)	Income derived from the provision of services	**23,251**	21,401
Profit before other items (£'000s)	Revenue less operating expenses i.e. profit before taxation, finance income and costs, depreciation, amortisation, bargain purchase gain and gain on the call options	**3,475**	4,709
Profit before other items margins (%)	Profit before other items divided by revenue	**15%**	22%
Profit before tax	Profit before taxation	**3,923**	4,033
Underlying revenue (£'000)	Revenue net of non-recurring costs and other exceptional items including bargain purchase gains and technical reserve releases that do not form part of the normal course of business as per Table 2 below.	**22,911**	20,518
Underlying profit before other items (£'000s)	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 below.	**4,235**	4,421
Underlying profit before tax (£'000s)	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 below.	**2,565**	3,745
Underlying profit margins (%)	Underlying profit before other items divided by revenue.	**18%**	21%
Recurring revenue (£'000s)	Revenue derived from annual management charges and/or contractual fixed fee agreements.	**18,025**	16,300
Like for like underlying profit before other items (£'000s)	Underlying profit before other items adjusted for the impact of new accounting standards and acquisitions in the year of acquisition	**4,200**	4,400

Table 2

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

* As more fully disclosed in Note 5 an exercise was carried out following the acquisition of CAHL to align their accounting policies with the Group's which resulted in a pre-acquisition adjustment in CAHL's financial statements. This amount is not included in our consolidated reported measures but represents the revenue and profit that would have been obtained if STM Group plc had had full ownership of CAHL for the full year.

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

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

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

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

Tax Charge and Earnings per Share

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

Earnings per share ("EPS") for 2019 is 5.73p compared to 6.20p for 2018. Diluted earnings per share takes into consideration the long-term incentive plan as approved by the shareholders at the Annual General Meeting on 18 May 2016 which expired in April 2019. This stipulated a maximum dilution factor of 5% resulting in diluted EPS of 5.64p (2018: 5.90p).

Cashflows

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

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

Net cash and cash equivalents as at 31 December 2019 were £17.2 million (2018: £15.6 million). However, as would be expected for a Group with regulated entities, a significant proportion of this balance forms part of the regulatory and solvency requirements.

In addition to the bank borrowing repayments, the Group has paid consideration in relation to both Harbour and Carey acquisitions amounting to £0.4 million. This cash outflow on acquisitions is consistent with the prior year where the Group also paid £0.8 million to the previous shareholders of the Harbour business.

As with most services businesses, the Group had accrued income in the form of work performed for clients but not yet billed which at the 2019 year end amounted to £1.2 million (2018: £0.8 million). The reason for the increase is largely due to the new auto-enrolment business acquired from Carey. These amounts will be billed during the course of 2020.

Deferred income (a liability in the statement of financial position), representing fees billed in advance yet to be credited to the statement of total comprehensive income, has increased slightly this year and stands at £4.2 million as at 31 December 2019 (2018: £4.0 million). This is predominantly due to increased revenues within the business.

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

Dividend

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

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

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

Operational Overview

Pensions

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

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

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

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

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

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

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

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

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

Product	Revenue 2019	Revenue 2018	Recurring percentage 2019	Recurring percentage 2018
	£m	£m	%	%
ROPS	10.1	10.0	94%	94%
SIPPs	2.7	1.6	76%	83%
Workplace pensions	1.3	-	95%	-
Totals	**14.1**	**11.6**	**90%**	**92%**

Life Assurance

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

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

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

Corporate and Trustee Services (CTS)

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

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

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

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

Other trading divisions

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

COVID-19

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

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

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

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

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

Outlook

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

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

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

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

I would like to take this opportunity to thank all my STM colleagues for their continued hard work and professionalism in carrying out their duties, specifically at such a time of change and uncertainty. I look forward to updating the market during the course of 2020.

Alan Kentish
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

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

The above results relate to both continuing and discontinued activities. Discontinued activities in the year are disclosed in note 4.

The notes to the accounts form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

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

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY
FOR THE YEAR FROM 1 JANUARY 2019 TO 31 DECEMBER 2019

	Share Capital £000's	Share Premium £000's	Retained Earnings £000's	Treasury Shares £000's	Foreign Currency Translation Reserve £000's	Shares Based Payments Reserve £000's	Total £000's	Non-Controlling Interests £000's	Total Equity £000's
Balance at 1 January 2018	**59**	**22,372**	**8,327**	**(226)**	**35**	**89**	**30,656**	**–**	**30,656**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD									
Profit for the period	–	–	3,683	–	–	–	3,683	–	3,683
Other comprehensive income									
Foreign currency translation differences	–	–	–	–	3	–	3	–	3
Transactions with owners, recorded directly in equity									
Dividend paid	–	–	(1,129)	–	–	–	(1,129)	–	(1,129)
Share based payments	–	–	–	–	–	55	55	–	55
Treasury shares purchased	–	–	–	(206)	–	–	(206)	–	(206)
31 December 2018 and 1 January 2019	**59**	**22,372**	**10,881**	**(432)**	**38**	**144**	**33,062**	**–**	**33,062**
Adjustment on initial application of IFRS 16 (net of tax) (Note 3)	–	–	(883)	–	–	–	(883)	–	(883)
Adjusted balance at 1 January 2019	**59**	**22,372**	**9,998**	**(432)**	**38**	**144**	**32,179**	**–**	**32,179**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD									
Profit for the year	––	–	3,756	–	–	–	3,756	(353)	3,403
Other comprehensive income									
Foreign currency translation differences	–	–	–	–	(97)	–	(97)	–	(97)
Transactions with owners, recorded directly in equity									
Dividend paid	–	–	(1,218)	–	–	–	(1,218)	–	(1,218)
Treasury shares purchased	–	–	–	(117)	–	–	(117)	–	(117)
Share based payments	–	–	–	–	–	18	18	–	18
Changes in ownership interest									
Acquisition of subsidiary with NCI (Note 5)	–	–	–	–	–	–	–	78	78
At 31 December 2019	**59**	**22,372**	**12,536**	**(549)**	**(59)**	**162**	**34,521**	**(275)**	**34,246**

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 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 2019, 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 Directors have considered the current position, foreseeable risks and uncertainties facing the business, in particular the COVID-19 pandemic, and are of the opinion that the business remains a going concern. As such 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 2019.

3. Changes in significant accounting policies

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

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

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

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made.

3. Changes in significant accounting policies cont.

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

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

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

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

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

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

4. Discontinued Operations

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

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

Results of the discontinued operation are as follows:

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

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

5. Acquisition of subsidiary

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

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

The acquisition has been accounted for using the acquisition method. Transaction costs incurred on the acquisition total £67,000 and have been expensed within administrative expenses in the consolidated statement of comprehensive income.

5. Acquisition of subsidiary cont.

Consideration for the acquisition is broken down as follows:

	£000's
Initial cash payment	100
Second cash payment	200
Contingent consideration	39
Total consideration transferred	**339**

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

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

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

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

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

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

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

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

5. Acquisition of subsidiary cont.

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

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

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

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

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

Call options to acquire non-controlling interests

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

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

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

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

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

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

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

7. Revenue

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

8. Administrative expenses

Included within administrative expenses are personnel costs as follows:

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

Average number of employees

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

9. Reconciliation of reported to underlying measures

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

* As more fully disclosed in Note 5 an exercise was carried out following the acquisition of CAHL to align their accounting policies with the Group's which resulted in a pre-acquisition adjustment in CAHL's financial statements. This amount is not included in our consolidated reported measures but represents the revenue and profit that would have been obtained if STM Group plc had had full ownership of CAHL for the full year.

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

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

10. Property, plant and equipment

Group	Motor Vehicles £000's	Office Equipment £000's	Leasehold Improvements £000's	Right-of-use Assets £000's	Total £000's
Costs					
As at 1 January 2018	15	2,054	641	–	2,710
Additions at cost	–	76	–	–	76
As at 31 December 2018	**15**	**2,130**	**641**	**–**	**2,786**
As at 1 January 2019	15	2,130	641	–	2,786
Recognition of right-of-use assets on initial application of IFRS 16	–	–	–	5,151	5,151
Adjusted balance at 1 January 2019	15	2,130	641	5,151	7,937
Acquired through business combination	–	19	–	90	109
Additions	–	117	–	481	598
Disposals	–	(167)	–	–	(167)
As at 31 December 2019	**15**	**2,099**	**641**	**5,722**	**8,477**
Depreciation					
As at 1 January 2018	6	1,160	304	–	1,470
Charge for the year	2	194	24	–	220
As at 31 December 2018	**8**	**1,354**	**328**	**–**	**1,690**
As at 1 January 2019	8	1,354	328	–	1,690
Recognition of right-of-use asset on initial application of IFRS 16	–	–	–	3,223	3,223
Adjusted balance at 1 January 2019	8	1,354	328	3,223	4,913
Charge for the year	2	187	53	531	773
Disposals	–	(162)	–	–	(162)
As at 31 December 2019	**10**	**1,379**	**381**	**3,754**	**5,524**
Net Book Value					
As at 31 December 2018	7	776	313	–	1,096
As at 31 December 2019	**5**	**720**	**260**	**1,968**	**2,953**

11. Intangible assets

Group	Goodwill £000's	Client Portfolio £000's	Product Development £000's	IT Development Costs £000's	Total £000's
Costs					
Balance as at 1 January 2018	16,490	1,422	586	–	18,498
Acquired through business combination	–	920	–	–	920
Additions	–	–	–	185	185
Balance at 31 December 2018	**16,490**	**2,342**	**586**	**185**	**19,603**
Balance as at 1 January 2019	16,490	2,342	586	185	19,603
Acquired through business combination	–	1,900	–	105	2,005
Additions	–	–	27	133	160
Balance at 31 December 2019	**16,490**	**4,242**	**613**	**423**	**21,768**
Amortisation and impairment					
Balance as at 1 January 2018	–	117	315	–	432
Charge for the year	–	157	36	12	205
Balance at 31 December 2018	**–**	**274**	**351**	**12**	**637**
Balance as at 1 January 2019	–	274	351	12	637
Charge for the year	–	400	34	138	572
Write-off intangible assets/adjustments	26	–	45	–	71
Balance at 31 December 2019	**26**	**674**	**430**	**150**	**1,280**
Carrying amounts					
At 31 December 2018	16,490	2,068	235	173	18,966
At 31 December 2019	**16,464**	**3,568**	**183**	**273**	**20,488**

Impairment testing for cash-generating units containing goodwill

All goodwill relates to the acquisitions made during the period from 28 March 2007 to 31 December 2019, and reflects the difference between the identifiable net asset value of those acquisitions and the total consideration incurred for those acquisitions.

11. 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's	Spain £000's	Jersey £000's	Total £000's
At 31 December 2019	15,439	48	977	**16,464**

The Group tests goodwill annually for impairment with the recoverable amount being determined from value in use calculations which are based on board approved projections for a year. The following four years cashflows have then been calculated based on growth rates as detailed below. As goodwill is considered to have an indefinite life the year 5 net cashflow has then been extrapolated to perpetuity. A post-tax discount rate of 13% has been used in discounting the projected cash flows. The sensitivities applied for turnover growth range between 0% and 5% for the various CGUs and have been arrived at using past experience and knowledge of the various markets and internal strategies for each CGU. Similarly for expenses a growth rate of between 0% and 3% has been applied.

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

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

Client portfolio

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

12. Cash and cash equivalents

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

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

13. Capital and reserves

Authorised, called up, issued and fully paid	**31 December 2019 £000's**	31 December 2018 £000's
59,408,088 ordinary shares of £0.001 each (2018: 59,408,088 ordinary shares of £0.001 each)	**59**	59

Treasury shares
The treasury shares relate to those shares purchased by the STM Group EBT for allocation to executives. The trustees held 1,089,780 (2018: 869,780) shares at 31 December 2019.

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

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

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

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

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

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

14. Earnings per share

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

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

15. Subsequent events

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

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

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

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

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