

# Strategy progressing

Annual report and accounts 2017

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## Who we are

Charles Stanley is one of the UK's leading, independently-owned wealth managers tracing its origins back directly to 1792 and is one of the oldest firms on the London Stock Exchange. Charles Stanley provides holistic wealth management services to private clients, charities and smaller institutions. These are delivered by over 400 professionals located in 24 offices throughout the UK, both direct to clients and to intermediaries.

Over the years we have constantly refined our proposition to meet the changing needs of our clients. Our services include personalised investment portfolio management, pooled solutions, financial planning advice and an award-winning execution-only dealing platform, Charles Stanley Direct.

## Our vision

Our vision is to become the UK's leading wealth manager by 2020.

We define leading in terms of quality rather than quantity. Focusing on client satisfaction as well as staff engagement and equity market rating, we measure our progress against these targets year-on-year.

Two years into our vision, positive transformation across the business sees us on track to achieving this.

## Our values

Charles Stanley's core values - Caring, Fair and Progressive – have provided an overarching framework within which we operate, supporting our underlying strategy to always work in our clients' best interests and offer a truly personal service.



For more information visit  
[charles-stanley.co.uk](https://charles-stanley.co.uk)

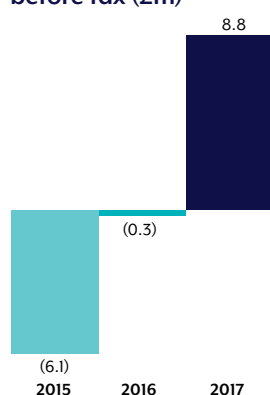
# At a glance

## Group highlights

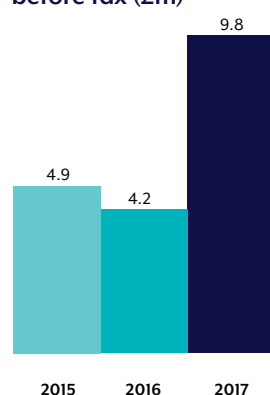
- Group returned to profitability
- Core Business<sup>1</sup> operating margin improved to 7.1%
- Balance sheet strengthened and higher cash balances
- 2017 dividend increased by 20% to 6.0 pence per share
- New investment managers' remuneration arrangements successfully concluded
- Transformation programme foundations in place
- All non-core activities disposed of
- Governance framework overhaul completed

## Financial highlights

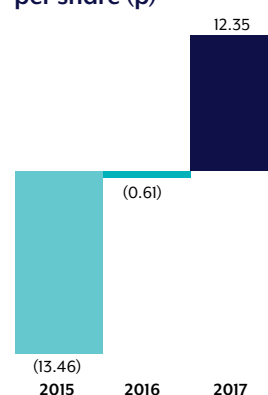
Reported profit/(loss)  
before tax (£m)



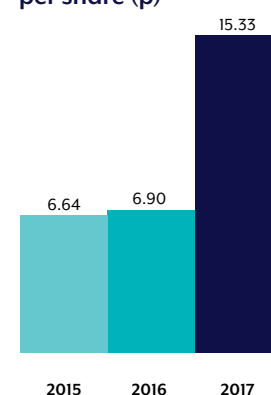
Core Business<sup>1</sup> profit  
before tax (£m)



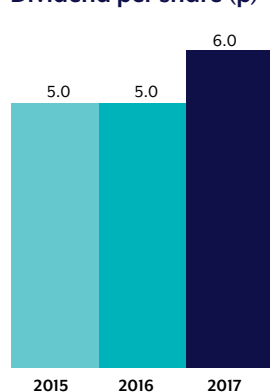
Reported basic earnings  
per share (p)



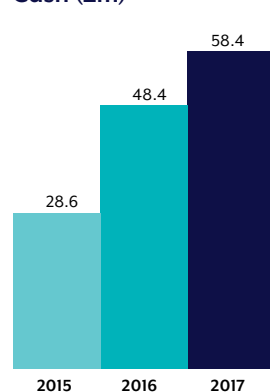
Core Business<sup>1</sup> earnings  
per share (p)



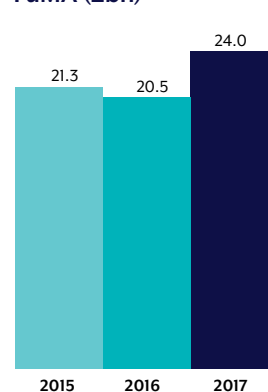
Dividend per share (p)



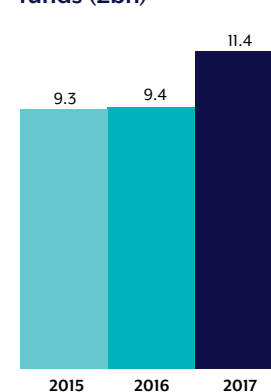
Cash (£m)



FuMA (£bn)



Discretionary  
funds (£bn)



## The four main operating divisions

Investment Management Services	Asset Management	Financial Planning	Charles Stanley Direct
Revenue	Revenue	Revenue	Revenue
<b>£122.7m</b>	<b>£6.6m</b>	<b>£5.0m</b>	<b>£4.3m</b>

<sup>1</sup>The Core Business figures represent the results of our four main operating divisions, excluding held for sale activities and adjustments for one-off items – refer to pages 20 and 31.

# Chairman's statement



**Sir David Howard**  
Chairman

2017 has been another year of significant transformation for the Group and we have made good progress against our articulated strategy. It is pleasing to announce that the transformation programme is bearing fruit, with sustained revenues despite the disposal of non-core activities last year, and a welcome return to profitability.

## Financial results

The Group's reported revenue for the year ended 31 March 2017 was £141.6 million, in line with that reported in the previous year. The reported profit before tax improved to £8.8 million, compared with a loss of £0.3 million in the previous year and a loss of £6.1 million in the year before that. The positive direction of travel is clear, as is the success of our programme of cost control.

Funds under Management and Administration stood at £24.0 billion at the year-end, compared with £20.5 billion the year before, an increase of 17.1%. This mirrors the improvement in the market index that we track, though the increase in Discretionary funds was significantly ahead of this over the 12-month period, up from £9.4 billion to £11.4 billion, or 21.3%.

Our cash position remains strong, at £58.4 million compared with £48.4 million at the previous year-end (both years are inclusive of cash balances held within assets held for sale).

## Remuneration structures

It is pleasing to report that by the year-end we had substantially completed our major project of restructuring the remuneration arrangements of our investment managers. The Board has been closely involved in the remuneration project, as I described in my statement last year, and I should like to thank all of our investment managers for their help and support in bringing this exercise to a successful completion. As a consequence we have greater alignment with the strategy of the business and better regulatory outcomes – for example the incentive structures in Investment Management Services and Financial Planning are no longer purely financial but are also linked directly to standards of conduct. Throughout, the interests of our clients have always been, and remain, uppermost. The high score of 93% overall client satisfaction achieved in this year's surveys are testament to this.

On page 4 of our Chief Executive Officer (CEO), Paul Abberley, addresses in greater detail our strategic development and implementation.

## Governance review

During the year, considerable work has been carried out reviewing our corporate governance framework. We have restructured the relationship between our two principal boards – Charles Stanley Group PLC (the holding company, or CSG) and Charles Stanley & Co. Limited (the principal regulated entity, or CSC) – and reorganised the committee arrangements. More senior managers have joined the Executive Committee, chaired by Paul Abberley, which not only develops and implements strategy as agreed by the CSG Board, but also manages the business on a day-to-day basis. More detail of the new governance framework is set out in the Governance section on pages 46 to 97.

## Board changes

David Pusinelli has decided not to put his name forward for re-election as a Non-executive Director at the forthcoming Annual General Meeting. David has been a highly valued member of the team, and has managed his roles as Chairman of the Audit Committee and as Senior Independent Director with skill and effectiveness. David joined the Board in 2012 and has contributed significantly to the progress of the Group. The Board thanks him sincerely for his help and advice, and wishes him good health and a long retirement. A search is well advanced for additional Non-executive Directors, with the guidance of professional external consultants, and we hope to make an announcement to shareholders in the near future.

Turning to our Executive Directors, it was to our regret that Michael Lilwall advised us in the autumn of his wish to step down from the Board for personal reasons. Michael joined Charles Stanley in 1997 and has played a significant role in many of our developments since that time. We are delighted that, though no longer a Director, he remains with the Group and will continue to look after a number of valued clients.

In last year's report I referred to the resignation, just after the year-end, of Anthony Scott. Anthony was a Director and the co-head of the Investment Management Services division, which represents the great majority of our business. To both Michael and Anthony I express the warmest thanks on behalf of the Group for their substantial contribution.

## Our team

Throughout a very busy year our staff have worked tirelessly to look after our clients, demonstrating our core values of being Caring, Fair and Progressive. So it gives me great pleasure to announce that the annual staff engagement survey carried out in November 2016 showed a sharp 11% increase in the overall engagement score to 67%. This illustrates that our staff are taking an active and engaged approach to our significant programme of improvement.

I would also like to pay tribute on behalf of the Board to the considerable achievements of our CEO, Paul Abberley, in masterminding the transformation process that is under way. He has led from the front and carried us all with him, embodying our theme of 'One Charles Stanley'. He has been ably supported by Ben Money-Coutts, our Chief Financial Officer, and Gary Teper, the Head of our Investment Management Services division. Our Non-executive Directors have also had a very busy and challenging year and have contributed greatly. I also thank our shareholders for their continuous support.

## Dividend

I have previously outlined our policy to return to a pattern of steadily increasing dividends once profitability starts to improve significantly. The Board is therefore recommending a final dividend of 4.5 pence per share. Taken together with the interim dividend of 1.5 pence per share, this results in a total dividend for the year of 6.0 pence per share, an increase of 20% compared to 5.0 pence per share paid in the prior year.

## Outlook

The two principal external drivers of our growth – the level of markets and the volume of investment trading – both surged after the Brexit vote on 23 June 2016 and have remained buoyant ever since. Much of the uncertainty which I spoke of last year has now dissipated with the EU referendum result and the election of President Trump, but we now have further uncertainty over the shape of the UK government following the UK election on 8 June 2017.

Looking further ahead, the macro uncertainties remain as great as ever. There is a lot of focus on what the UK's exit from the EU will mean for the UK financial services industry. Our business, being predominantly UK-based and serving UK-based clients, is, we believe, relatively well placed to ride out any storm that might arise for the financial services sector from the Brexit negotiations.

Despite these longer term uncertainties, market conditions are more settled, and more favourable, than they were at this time last year. This provides a favourable backdrop for our transformation programme and should bring growth in revenues, profits and margins, which in turn will support our progressive dividend policy and thus generate long-term shareholder value.

**Sir David Howard**  
**Chairman**

13 June 2017

*The positive direction of travel is clear, as is the success of our programme of cost control.*

# Chief Executive Officer's report



**Paul Abberley**  
Chief Executive Officer

Charles Stanley's transformation programme is on track. As previously communicated, our aim is to push our business into the first quartile for client satisfaction, staff engagement and stock market rating by 2020. We have made good progress during the 2017 financial year and I am confident that we will hit our targets and become the UK's leading wealth manager within three years.

## Financial performance

The Group made a healthy return to profitability with a reported profit before tax of £8.8 million compared to a loss of £0.3 million in the previous year. This was aided by strong financial markets but driven primarily by the transformation implemented over the past two years. The Group is streamlined, focused and positioned to deliver profitably the wealth management services and products sought and needed by UK clients. This has been delivered without recourse to a restructuring charge and the precautionary capital raised from shareholders in April 2015 remains intact.

As planned, the financial improvements were broad-based. A strong cost control culture was evident across all units and each of our four client-facing divisions delivered positive underlying momentum. Profits from the Core Business increased from £4.2 million in 2016 to £9.8 million this year reflecting an improvement in operating margin from 3.1% to 7.1%, paving the way towards our medium-term target of a 15% operating margin.

## Strategy implementation

The strategy determined in early 2015 required considerable preparatory work but I am pleased to be able to report that this is now largely in place and the benefits to both clients and shareholders are materialising. Our four client-facing divisions provide a full service, holistic wealth management offering, from discretionary fund management to simple execution, with financial planning advice as needed. We remain an investment-led firm and the delivery of discretionary fund management by empowered investment professionals is at the heart of our offering. Indeed, we are experiencing a steady trend in previously self-directed clients seeking a discretionary service instead.



### The year ahead

The benefits of the strategy have started to crystallise and we remain confident that this momentum will be maintained. Indeed, with a renewed focus on reaching new clients and serving our existing clients more comprehensively, we expect an acceleration in new business revenues. The underlying commercial models in each of our four client-facing divisions have been re-engineered to ensure profitable delivery and to underpin the operational gearing which, over time, will support margin growth. Growing revenues and building operational efficiency will now be the central focus.

Recourse to technology in divisions such as Charles Stanley Direct allows the Group to serve a broader range of client needs, often at an earlier stage in our clients' lifetime financial journeys. While profound digital disruption is not yet on the horizon, it is important to ensure that our technology platforms permit a timely and flexible response to evolving client needs. We intend to foster such preparedness whilst continuing to provide first-class advice to our clients.

Our Chairman, Sir David Howard, referred to the new governance framework and this will become a vital enabler, particularly given the new wave of regulatory requirements for which implementation is under way. We are well prepared.

Continuing successful delivery of our strategy moves the Group closer to the 2020 vision of becoming the UK's leading wealth manager as measured by the quantitative scores for relative client satisfaction, staff engagement and stock market rating. Delivery will ensure that all our stakeholders are appropriately served and we look forward to the new financial year with growing confidence.

**Paul Abberley**  
**Chief Executive Officer**  
 13 June 2017

*The underlying commercial models in each of our four client-facing divisions have been re-engineered to ensure profitable delivery and to underpin the operational gearing which, over time, will support margin growth. Growing revenues and building operational efficiency will now be the central focus.*

## Strategic report

The strategic report, as approved by the Board, outlines our performance for the year, an update on our markets and our business, how we delivered against our objectives and the strategic focus for the years ahead.

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# Strategy and operating principles overview

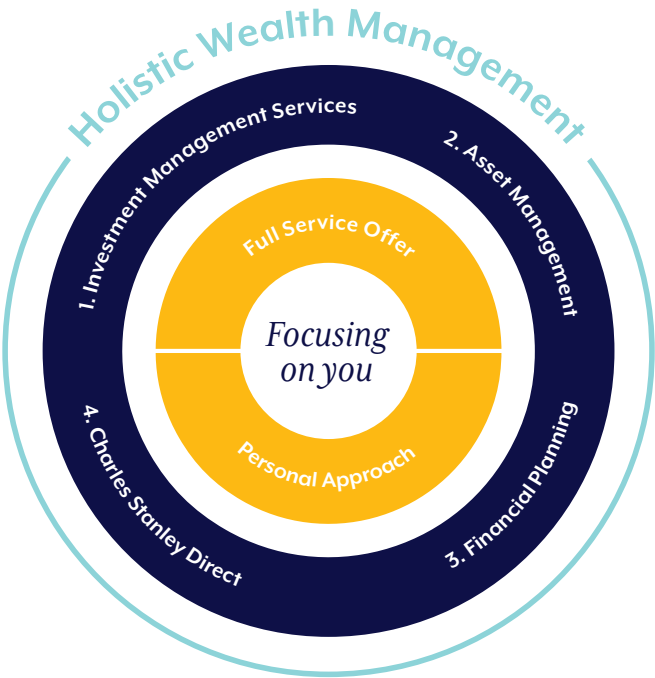
## What we do

### Client-focused investment management

Charles Stanley has a distinctive client-facing approach, offering a genuine personal service across the full range of investment management services. We provide these services in three forms: our time to interact with clients, our investment insights and our willingness to make investment decisions on clients' behalf.

### Holistic wealth management

We are committed to holistic wealth management. Broadly defined, wealth management includes our core capability for private clients, Investment Management Services; Asset Management Services, where our investment specialists manage pooled vehicles and funds; Financial Planning, where clients are advised on how they should plan their financial arrangements and deploy their investments; and Charles Stanley Direct, which gives clients the ability to access our execution-only services online without the need for direct personal contact.



## Transformation journey to 2020

2015                      2016                      2017                      2018                      2019                      2020



- The journey to refocus our business has three phases:
- The strategic review, which is now complete
  - Implementation of the revised strategy, which is progressing well
  - To deliver a sizeable platform capable of sustainable growth.

Please refer to page 14 for more details



## How we do it – four operating divisions

### Investment Management Services

Investment Management Services offers a comprehensive personalised service to direct private clients: managing discretionary portfolios, providing investment advice and offering execution-only services covering a wide range of financial instruments. Increasingly the division is working with financial planners, both internal and external, to offer a comprehensive wealth management service, particularly around pension planning and inheritance tax planning. The division also looks after significant assets on behalf of charities and foundations.



For more on Investment Management Services go to page 23

### Financial Planning

The Financial Planning division provides holistic financial planning advice and works with clients to ensure that their financial arrangements and plans are optimised to address their current and future needs and circumstances. It can be delivered standalone or in conjunction with the Investment Management Services division.



For more on Financial Planning go to page 27

### Asset Management

The Asset Management division provides pooled solutions, model portfolios and inheritance tax solutions for a range of clients. It also provides investment solutions for institutional investors.



For more on Charles Stanley Direct go to page 25

### Charles Stanley Direct

Charles Stanley Direct provides a direct-to-client investment service, created to meet the needs of the modern self-directed investor. Investments can be made online or with telephone support, in a wide range of funds, shares, gilts and bonds.



For more on Charles Stanley Direct go to page 28

## Three strategic measures

1



### Client satisfaction

Our client satisfaction surveys are being remodelled to allow benchmarking within the wealth management industry and to ensure clients' feedback is adequately captured and monitored.

2



### Staff engagement

We hold annual staff engagement surveys benchmarked within the wealth management sector and ensure staff feedback is actively acted upon.

3



### Equity market rating

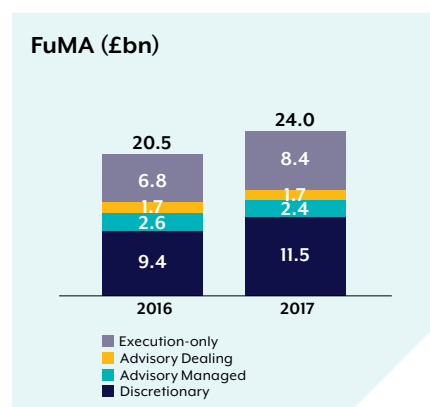
We compare the Group's three-year total shareholder return to a basket of peer group listed companies.

*The delivery of our strategy will be independently measured against targets over three strategic measures: client satisfaction, staff engagement and equity market rating.*

# Key performance indicators

The Group considers the following financial and strategic measures as key performance indicators (KPIs) of the Group's overall performance for the year ended 31 March 2017 against the prior year comparative.

## Financial measures – FuMA and revenue margins

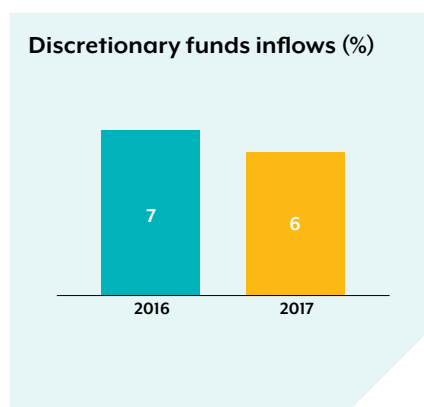


### Definition

FuMA by investment category.

### Performance

FuMA increased by 17.1% compared to a 15.9% increase in the WMA Balanced Index.

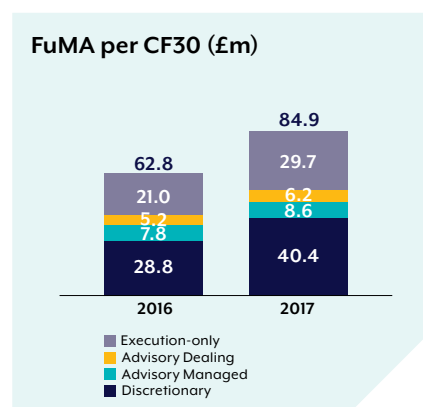


### Definition

Value of net new inflows as a percentage of opening FuM for Discretionary funds.

### Performance

Net inflows were £0.6 billion in 2017 in line with those recorded in the prior year.

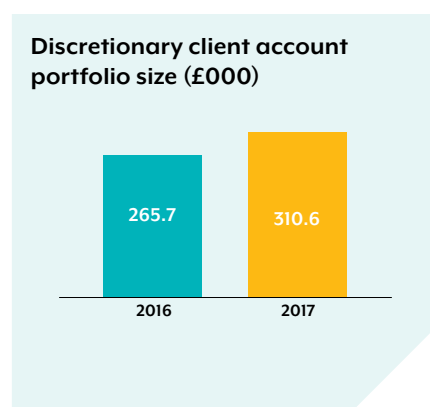


### Definition

FuMA divided by the number of CF30s (investment managers who provide advisory services regarded as a controlled function by the FCA).

### Performance

The increase from £62.8 million to £84.9 million in 2017 was due to both an increase in FuMA and a reduction in the number of CF30s in the year.

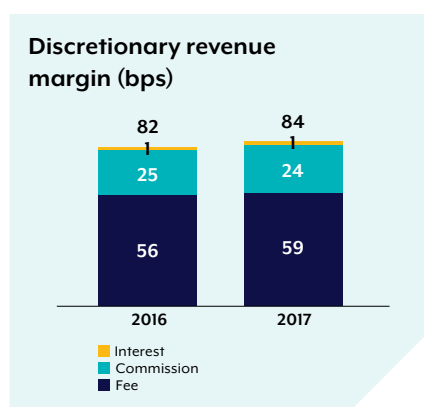


### Definition

Discretionary funds divided by the Discretionary client accounts.

### Performance

The Discretionary average client portfolio size increased by 16.9%. Both the Discretionary funds value and the number of client accounts recorded an increase during the year.

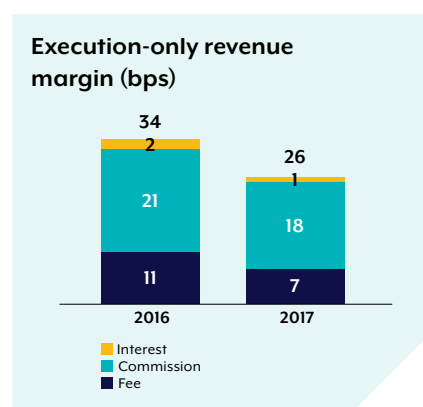


### Definition

Fee, commission and interest income measured as a percentage return on average annual Discretionary funds.

### Performance

Total Discretionary revenue margin increased by 2bps overall, with a 3bps increase in fee revenue offset by reductions in commission and interest margin.



### Definition

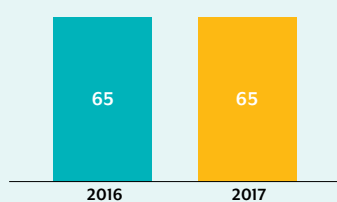
Fee, commission and interest income measured as a percentage return on average annual Execution-only assets.

### Performance

The return on Execution-only assets has decreased by 8bps during the year due to a change in Charles Stanley Direct's revenue mix.

## Financial measures – operating efficiency

**Fees to revenue ratio (%)**



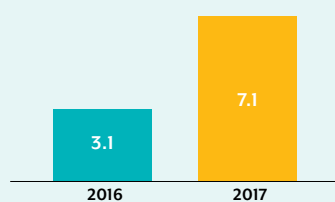
**Definition**

Fee income as a percentage of total revenue, comprising fee, commission and interest income.

**Performance**

The ratio of fees to revenue remained in line with prior year.

**Core Business operating margin (%)**



**Definition**

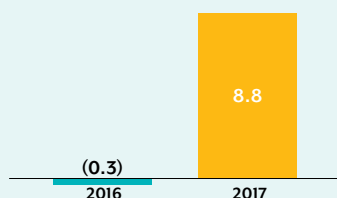
Profit before tax measured as a percentage of revenue for the Core Business.

**Performance**

Higher revenues and cost control within the Core Business has resulted in a significant four percentage point increase in operating margin.

## Financial measures – shareholder return

**Reported profit/(loss) before tax (£m)**



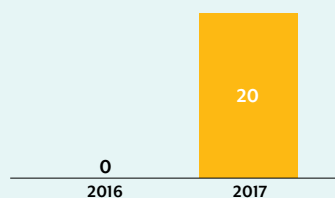
**Definition**

The reported profit or loss before tax for the Group.

**Performance**

Reported profit before tax has increased by £9.1 million due to the significantly improved profitability during the year.

**Dividend growth (%)**



**Definition**

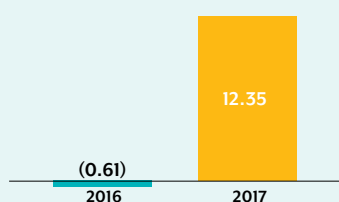
The percentage change in the total dividend per share.

**Performance**

The total dividend per share for 2017 increased by 20% to 6.0p per share.

## Financial measures – shareholder return (continued)

### Reported basic earnings per share (p)



#### Definition

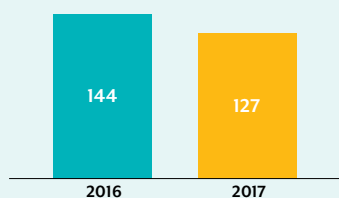
Reported profit after tax divided by the weighted average number of ordinary shares.

#### Performance

The increase in earnings per share is due to the higher profit after tax recognised in the year.

## Financial measures – balance sheet strength

### Capital adequacy ratio (%)



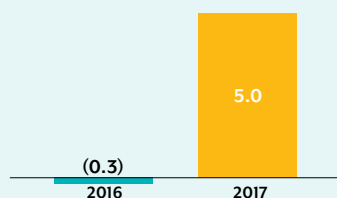
#### Definition

The Group's regulatory capital resources to its minimum regulatory capital requirement.

#### Performance

The ratio decreased from 144% to 127% due to an increase in the Group's regulatory capital requirement during the year.

### Return on capital employed (%)



#### Definition

Reported operating profit/(loss) (as shown on page 20) divided by capital employed (total assets less current liabilities).

#### Performance

The return on capital employed improved during the year due to a return to profitability.

## Strategic measures



### Client satisfaction

#### Our objective

We are committed to improving our relations with our clients and ensuring that our services meet and exceed their expectations.

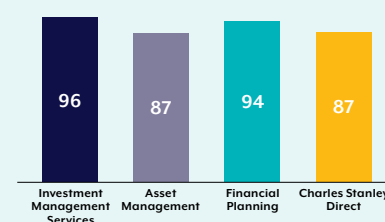
We conduct client surveys to help monitor clients' satisfaction with our services and to help instruct us as to how we might adapt them to meet their requirements.

Client satisfaction surveys were carried out for all of our operating divisions during the year. The results of the surveys were overwhelmingly encouraging with high satisfaction scores achieved by every division.

# 93%

overall weighted average rating, maintaining the score achieved in 2016 of 94%.

### Client satisfaction by division (%)



### Staff engagement

#### Our objective

Staff engagement is viewed as being fundamental to our success. In November 2016 we carried out our second annual staff engagement survey. There was a

# 73%

response rate and a

# 67%

overall engagement score, up from 56% in 2016.

Moreover,

# 86%

of participants praised Charles Stanley for being a friendly place to work.

This represents an

# Upper quartile

rating within the Financial Services industry.

Charles Stanley is in the upper quartile when benchmarked against the CIPD's annual data (scoring 28 percentage points above the UK average). We also scored above average within the Financial Services industry according to the Hay Group Employee Engagement Index benchmark, which is at 61% – Charles Stanley's rating is 6 percentage points above this benchmark and only 4 points below the high performing benchmark.

Staff engagement will continue to be assessed on an annual basis.



### Equity market rating

#### Our objective

The Board is committed to delivering strong shareholder returns over the longer term. The adjacent table illustrates Charles Stanley's three-year total shareholder return (representing the change in share price and dividends paid over the period) relative to that of a basket of peer group listed companies. Compared to 2016, the Group moved

# Up 1 place

in market rating position.

Company name	2017	2016
Rathbone Brothers Plc	1	2
Brooks Macdonald Group plc	2	6
WH Ireland Group plc	3	3
Brewin Dolphin Holdings PLC	4	5
Walker Crips Group plc	5	4
<b>Charles Stanley Group PLC</b>	<b>6</b>	<b>7</b>
Shore Capital Group Limited	7	1

## Our business

Charles Stanley is one of the UK's leading wealth managers, managing and administering £24.0 billion on behalf of our clients. Over the last 225 years we have constantly refined our proposition to meet the changing needs of our clients. This has led to high levels of trust with client satisfaction scores of 93%.

Personal service and dependable stewardship of clients' money will always be the chief virtues of our firm. We have built on our stockbroking heritage and are now structured to allow us to bring that culture to four complementary divisions – Investment Management Services, Asset Management, Financial Planning and Charles Stanley Direct.

### Investment Management Services

Our Investment Management Services division offers discretionary, advisory and execution-only services to private clients, trusts, charities and companies. Around 68,000 client accounts are supported through a network of 24 offices around the UK. Our operating model empowers high-quality investment managers to look after clients' money in a tailored manner, either directly or in partnership with a financial planner.

This premium service creates deep bonds of trust with clients and typically leads to discretionary mandates generating strong revenue yields. Furthermore, the empowered model has led to near-consistent asset growth since 2010.

### Asset Management

Working arm-in-arm with the Investment Management Services division is our Asset Management division. This division provides bespoke and pooled solutions to a range of clients, from institutional investors with multi-million pound portfolios to managing the assets of valued retail clients. We believe Asset Management provides both an excellent growth opportunity in itself and in partnership with our Investment Management Services division.

### Financial Planning

With each Government budget making the savings landscape more complex, our clients increasingly need high-quality advice to best deal with their wealth for retirement and for future generations. Our Financial Planning division is well positioned to grow and capture market share including supporting the clients of our Investment Management Services division.

### Charles Stanley Direct

For investors who want to manage their own money, we have enabled them to utilise our dealing, settlement and custody services through our digital execution platform, Charles Stanley Direct. While the wealth management industry is often divided between discretionary or execution services, Charles Stanley Direct can help provide a bridge between the two. The division helps customers, often younger, to manage their own investments online or over the phone in a wide range of funds, shares, gilts and bonds.

Over time, as their needs evolve and they require advice or help in managing their wealth, they can easily access Charles Stanley's Discretionary services. This will open up new growth opportunities for both our Investment Management Services and Financial Planning divisions.

In summary, our four divisions each have the capacity to grow revenues in their respective markets. Moreover, together they offer a set of complementary services which will support our vision to become the UK's leading wealth manager by 2020.

### Recent awards received by Charles Stanley Direct:

- The Platform: Best Direct Platform for Service
- FT & Investors Chronicle: Best Self-select Isa Provider
- Defaqto 5 star rating in the category of Consumer Platform



For more on Strategy progressing go to page 14

# Our markets

The wealth management market in the UK is evolving in four ways. This section explains each change and the opportunities for Charles Stanley.

## New customer segments

Wealth management firms are finding fresh and innovative ways to grow revenues including tailoring products to target customers who had not traditionally used these companies. New technology and digital channels mean firms can target customers more efficiently and open up new revenue streams.

The biggest growth area is in direct-to-client marketing, in particular to three segments – women, millennials and retirees – whose concentration of wealth is growing. Charles Stanley is working hard to segment better its customers to help it tailor its offering to meet their specific needs. Currently, few wealth management firms segment their clients in a manner that allows them to tailor their offerings. Charles Stanley's Distribution department has already started a segmentation project and, once complete, a refreshed website will follow shortly thereafter. Designed to showcase our broad offering in a more targeted manner, these initiatives will improve our market share in the most fertile areas of the market.

## Intermediary sales

The Retail Distribution Review in 2013 has meant many independent financial advisors are now semi-tied to an investment manager. This creates an opportunity for Charles Stanley to leverage its 225 year old trusted name and network of 24 offices to forge strategic alliances with groups of independent financial advisors. To that end, we have expanded our Intermediary Sales Team to grow our relationships in this market.

## Financial planning

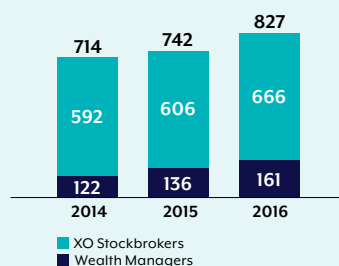
Traditionally many wealth management firms focused on purely discretionary investment management but it is clear that there is a growing demand for financial planning as customers have increasingly complex needs. To meet this demand, Charles Stanley has adopted a vertically integrated model so we are better placed to offer financial planning services to our Investment Management Services division's 68,000 client accounts and to cement further our position as trusted adviser to our customers.

## New technology

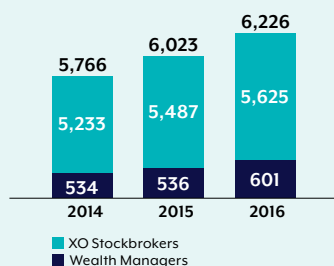
There has been a flurry of fintech start-ups launching highly-scalable automated-advice solutions, with established wealth management players also beginning to enter the market. So far, few offerings have gained traction. Charles Stanley has the opportunity to expand in this market. We can capitalise on our asset management expertise, distribution capability and technology platform to provide a high-quality investment management range for clients with smaller portfolios. Our recently launched Personal Portfolio Service will allow us to grow our assets in an open market, segment our customers more efficiently and grow capacity in our Investment Management Services division.

Together, these four themes illustrate that the wealth management market is evolving quickly. Opportunities exist and Charles Stanley is looking to capitalise on them.

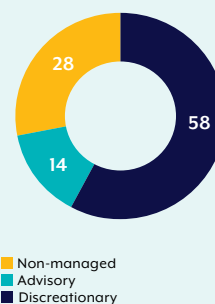
Total investment assets (£bn)



Total revenue (£m)



2016 investment assets split (%)



Source: Compeer Limited, data at 31 December 2016.

## Strategy progressing

Our vision at Charles Stanley is to become the UK's leading wealth manager by 2020. Progress will be assessed by three measures: client satisfaction, staff engagement and stock market rating. These will be benchmarked annually to the UK wealth sector, with the aim of delivering first quartile results in three years.

To achieve the ambition, we have made two fundamental decisions:

- The first is to maintain the empowered investment manager model. By trusting our front line advisers to make investment decisions, service existing clients and attract new business, we are differentiating ourselves as a service provider in an increasingly product-driven market. We believe that offering clients access to the person who manages their portfolio is increasingly a unique selling point as many of our peers are favouring a centralised approach with relationship managers. We believe that many investment managers will want to join Charles Stanley in order to service their clients in this way. We also believe the effect of our differentiated proposition will be a faster growth in funds versus other firms. This should in turn mean, that because we have a predominantly fixed cost base, our margins will increase.
- The second key decision is to build a holistic wealth offering around our core investment management business. Alongside Investment Management Services we now offer clients advice from our Financial Planning division, pooled solutions from our Asset Management division and online execution-only services from Charles Stanley Direct.

Combined, these decisions mean we have a unique proposition within the wealth sector: a full-service holistic offering but with the discretionary fund management component delivered through the traditional empowered investment manager model.



## Implementation milestones achieved

With the pillars in place, over the last 12 months we have made significant progress in terms of implementing our strategy across each of our divisions.

### Investment Management Services

We have delivered on our promise to revise the remuneration arrangements of our investment managers. This has been achieved in three ways. Firstly, our remuneration model has changed from one that was mostly revenue-based to be more centred on profit. This better aligns the interests of investment managers and shareholders. Secondly, the incentive schemes for our employed and associate investment managers have also been harmonised while recognising the differences between them. Finally, the ratio of compensation to revenue has been lowered while simultaneously providing the potential for investment managers to increase their total compensation subject to profit contribution. The overwhelming majority of staff signed up – amounting to in excess of 96% of FuMA with the new profit-orientated scheme coming into effect from 1 April 2017.

Alongside remuneration changes we have delivered growth initiatives in the Investment Management Services division. Following our rebrand, we reinvigorated our intermediary distribution network, with the top-down strategy of concentrating on nationals and networks. We have also significantly improved our client onboarding process. Finally, we have integrated a Client Relationship Management system which allows us to analyse the success of our sales campaigns and allocate shareholder capital more effectively.

Over the year, FuMA have grown by 17.1% to £24.0 billion. Crucially, this growth comes with an increasing return on assets. Higher-yielding discretionary FuM are up 21.3% to £11.4 billion, with the discretionary element of the business mix rising by 1.7% to 47.5%. Meanwhile, we have implemented a new rate card. While it already applies to new clients, existing clients are being phased on to the new rates, with a significant proportion expected to move in financial year 2018.

	Implementation milestones achieved	Implementation milestones planned for 2018
<b>Investment Management Services</b>	<ul style="list-style-type: none"> <li>Revised the investment managers' remuneration arrangements to be better aligned with the Group's strategy and shareholders' interests</li> <li>Reinvigorated our intermediary distribution network</li> <li>Implemented a new rate card phased in over three years</li> <li>Improved our client onboarding process</li> </ul>	<ul style="list-style-type: none"> <li>Encourage greater access to holistic wealth management and work more closely with Financial Planning</li> <li>Recruit talented investment management professionals</li> <li>Increase focus on the needs of IFAs</li> <li>Introduce end-to-end process management</li> <li>Refresh client reporting and redesign the digital interface</li> </ul>
<b>Asset Management</b>	<ul style="list-style-type: none"> <li>Refreshed the product offering</li> <li>Launched an OEIC range to capitalise on IFA outsourcing and provide a more cost-effective solution to smaller clients</li> </ul>	<ul style="list-style-type: none"> <li>Optimise the operating model</li> <li>Provide efficiencies and capacity for further revenue-generating activities</li> </ul>
<b>Financial Planning</b>	<ul style="list-style-type: none"> <li>Restructured the division and streamlined operating processes</li> <li>Revamped customer value proposition</li> </ul>	<ul style="list-style-type: none"> <li>Grow the number of financial planners</li> <li>Increase revenues and profitability by a wider market offering - existing and new clients</li> <li>Implement a new business processing system</li> </ul>
<b>Charles Stanley Direct</b>	<ul style="list-style-type: none"> <li>Implemented a new pricing structure</li> <li>Released a new mobile-optimised website</li> <li>Enhanced the digital marketing strategy</li> </ul>	<ul style="list-style-type: none"> <li>Offer Personal Portfolio Service on the platform</li> <li>Implement a new Corporate Actions service to streamline processes</li> <li>Launch a tablet-friendly mobile application</li> </ul>
<b>Support Functions</b>	<ul style="list-style-type: none"> <li>Consolidated our London footprint into a single head office site</li> <li>Invested in systems to ensure efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Rationalise front and back office procedures</li> <li>Support greater online functionality</li> </ul>

### **Asset Management**

We have refreshed the asset management product offering. A range of multi-asset portfolios have been developed to provide IFAs with tailored, segregated portfolios for their larger clients. Moreover, an OEIC range has been launched to capitalise on IFA outsourcing. They are a logical home for clients with lower value portfolios for whom the bespoke solution is not cost-effective.

### **Financial Planning**

In Financial Planning, our focus is on internal and external business development and the adoption of a streamlined operating process. We have revamped our customer proposition, pricing and literature, and now that we have the fundamentals of our holistic Financial Planning in place, we will focus on offering these services to our clients. Moreover, we have introduced a new variable reward scheme which incentivises revenue growth.

### **Charles Stanley Direct**

This year, we have released an all-new mobile-optimised website with enhanced registration. The new website is delivering 350-400 accounts to the business per week with an average client age of 42. We are feeding the outlet through a scientific approach to digital marketing which has given us a much lower cost-per-acquisition than the industry-quoted levels. Simultaneously, we amended our pricing in October 2016 to attract frequent traders and pension clients. Complementing that, we have made it easier for Investment Management Services to transfer Execution-only clients to Charles Stanley Direct.

### **Support Functions**

We have made efficiencies to support the changes in the front line divisions. We have consolidated our London footprint into a single building at 55 Bishopsgate, lowering costs while improving efficiency. We have also invested in systems to ensure that our links to external custodians, as well as to existing and new fund platforms, are more efficient. Finally, we have refreshed our Business Change department, drawing on experience learnt from other companies to ensure that we deliver the right projects in the right manner.

### **Implementation milestones in prospect**

With the foundations now in place, we have further initiatives planned for the financial year 2018. In headline terms, the Group is sharply focused on two goals: revenue growth and operational effectiveness.

### **Investment Management Services**

In Investment Management Services, numerous initiatives are under way, including repricing, encouraging greater access to holistic wealth management, improving the way we work with intermediaries, recruiting talented investment management professionals and undertaking more business development and sales initiatives. To aid overall growth, we need to create efficiencies and improvements so we have more time to focus on servicing our clients and undertaking business-enhancing activities. While the Support Functions will lead a number of projects, a number of initiatives will be progressed by Investment Management Services in order to improve service. Examples of developments in this area include refreshing client reporting, refining the systems around our investment management process and redesigning our digital interface with clients. At the same time we continue to refine and improve the control and oversight environment with initiatives that will protect and future-proof our business model. While many of these developments go unseen by clients, they are vital to ensure we continue to offer top-quality investment services.

### **Asset Management**

In Asset Management, we will optimise our operating model in such a manner that provides efficiencies and capacity for further revenue-generating activities.

### Financial Planning

In Financial Planning, we will focus on three key areas. First, we will look to increase revenues and profitability. Our proposition will be rolled out and actively offered to existing Charles Stanley clients and the wider marketplace. The proposition will be supported by our new pricing model which is in place for all new clients and will be passed on, where appropriate, to existing clients as part of our normal client reviews. We expect a meaningful uptick of our revenues as a result. Secondly, having reduced our client-facing staff numbers by 28% to ensure we have the right quality individuals, we will look to materially grow our number of financial planners. It is intended that these new hires will make a contribution in the year, but, of course the full benefit from these hires will be seen in years to come. Finally, we will focus on implementing our streamlined business processing system, with the hope that significant productivity gains will be captured.

### Charles Stanley Direct

In Charles Stanley Direct, we will expand the offering by introducing our new Personal Portfolio Service. To improve client service, we will implement a new Corporate Actions service to streamline processes. We will also reinforce our security features via an extension of our existing mobile text messaging applications. Finally, we will launch a tablet-friendly mobile application. This will be built on the existing architecture of the current iPhone application to address the current trend that 40% of our clients now access the website via mobile devices.

### Support Functions

In the Support Functions, we will develop the Group's operating model to support the more focused strategies of the front office business units. With increasing standardisation of processes, we will ensure that the systems and back office deliver with minimal manual intervention. Key areas that will be targeted during this year will be transfers and payments. Both of these will be supported by a greater online functionality where our clients want it. The strategic changes will be achieved against the backdrop of the significant regulatory changes for MiFID II and PRIIPs and the increasing focus on ensuring resilience against cyber attacks.

### Summary

All the elements are in place to be the UK's leading wealth manager by 2020. We have a fully engaged workforce in place, structured in the right manner, and working towards one clear objective. After formalising the structures and cultures needed, Charles Stanley is primed for growth.

# Review of the year



**Ben Money-Coutts**  
Chief Financial Officer

Financial year 2017 was the second year of our five-year turnaround programme. Whereas the focus for 2016 had been to reduce losses, dispose of non-core activities, strengthen the balance sheet and formulate a detailed plan to achieve the Group's strategy, that for 2017 was to return to profitability and to lay down the foundations for long-term growth. Whilst we still have a long way to travel in terms of improving top line growth, productivity and operating efficiency, good progress has been achieved during 2017 across all divisions. We remain on track to deliver on the Group's strategic targets by 2020.

## Overview of 2017 full year results

The Group's overall revenues for 2017 were at the same level as 2016 at £141.6 million. This is due to the fact that the 3.8% increase in revenues of our Core Business (comprising the Investment Management Services, Asset Management, Financial Planning and Charles Stanley Direct divisions), was offset by the elimination of revenues associated with our held for sale activities disposed of during the previous year.

Overall expenditure decreased by 3.7% to £136.8 million (2016: £142.1 million), mainly due to tight cost control.

Various aspects of our reorganisation programme gave rise to an exceptional level of net finance income of £3.8 million (2016: £0.1 million). The main contributor was the profit on disposal of a long leasehold office in Luke Street, London which helped finance the rationalisation of all our London offices into a single office at 55 Bishopsgate. Details of this and other one-off adjusting items are set out on page 31.

As a result of the above factors, the adjusted profit before tax from the Core Business (excluding held for sale activities) for 2017 improved by 133.3% to £9.8 million (2016: £4.2 million) and overall the Group achieved a reported profit before tax of £8.8 million compared to a loss of £0.3 million in the prior year.

## Funds under Management and Administration

The Group's revenue is substantially driven by the level of its FuMA. These increased by a very healthy 17.1% to £24.0 billion at 31 March 2017 (2016: £20.5 billion). The increase was ahead of the benchmark WMA Balanced Index which rose 15.9% over the same period.



## FuMA movement

	2017 £bn	2016 £bn	Change %
<b>As at 31 March</b>			
Discretionary funds	11.4	9.4	21.3
Advisory Managed funds	2.4	2.6	(7.7)
<b>Total managed funds</b>	<b>13.8</b>	<b>12.0</b>	<b>15.0</b>
Advisory Dealing funds	1.8	1.7	5.9
Execution-only funds	8.4	6.8	23.5
<b>Total administered funds</b>	<b>10.2</b>	<b>8.5</b>	<b>20.0</b>
<b>Total Funds under Management and Administration</b>	<b>24.0</b>	<b>20.5</b>	<b>17.1</b>
WMA Balanced Index	4,122	3,556	15.9

The movement of FuMA continued the trend of recent years toward Discretionary and online Execution-only services. These increased by 21.3% and 23.5% respectively year-on-year. Advisory Dealing funds showed modest growth of 5.9% whilst Advisory Managed funds fell 7.7%, largely as a result of clients upgrading to the Discretionary service. The Execution-only funds on the Charles Stanley Direct platform increased by 35.7% to £1.9 billion.

The £3.5 billion net increase in FuMA since 31 March 2016 comprised inflows from new (£1.4 billion) and existing (£0.5 billion) clients and positive market performance of £3.0 billion; offset by client accounts closed during the period of £1.4 billion, of which £0.4 billion was accounted for by clients of departing investment managers.

FuMA flows (£bn)



## Results and performance

The Group's financial performance for the year ended 31 March 2017 and for the prior year are summarised in the tables below. These tables show the results of the Core Business, the held for sale activities (Charles Stanley Securities and Charles Stanley Financial Solutions Limited, both of which were disposed of by 1 April 2016, and EBS Management PLC, the sale of which was completed on 31 May 2017) and various adjusting items, details of which are set out on page 31.

	Core Business £m	Held for sale £m	Adjusting items £m	Reported performance £m
<b>31 March 2017</b>				
<b>Revenue</b>	<b>138.6</b>	<b>3.0</b>	<b>–</b>	<b>141.6</b>
<b>Expenses</b>	<b>(129.1)</b>	<b>(3.0)</b>	<b>(4.7)</b>	<b>(136.8)</b>
<b>Other income</b>	<b>0.2</b>	<b>–</b>	<b>–</b>	<b>0.2</b>
<b>Operating profit/(loss)</b>	<b>9.7</b>	<b>–</b>	<b>(4.7)</b>	<b>5.0</b>
<b>Net finance income</b>	<b>0.1</b>	<b>–</b>	<b>3.7</b>	<b>3.8</b>
<b>Profit/(loss) before tax</b>	<b>9.8</b>	<b>–</b>	<b>(1.0)</b>	<b>8.8</b>
<b>Tax expense</b>	<b>(2.0)</b>	<b>–</b>	<b>(0.5)</b>	<b>(2.5)</b>
<b>Profit/(loss) after tax</b>	<b>7.8</b>	<b>–</b>	<b>(1.5)</b>	<b>6.3</b>
<b>Basic earnings per share (p)</b>	<b>15.33</b>	<b>–</b>	<b>–</b>	<b>12.35</b>
<b>31 March 2016<sup>1</sup></b>				
<b>Revenue</b>	<b>133.5</b>	<b>8.1</b>	<b>–</b>	<b>141.6</b>
<b>Expenses</b>	<b>(129.5)</b>	<b>(8.7)</b>	<b>(3.9)</b>	<b>(142.1)</b>
<b>Other income</b>	<b>0.2</b>	<b>–</b>	<b>–</b>	<b>0.2</b>
<b>Operating profit/(loss)</b>	<b>4.2</b>	<b>(0.6)</b>	<b>(3.9)</b>	<b>(0.3)</b>
<b>Net finance income</b>	<b>0.1</b>	<b>–</b>	<b>–</b>	<b>0.1</b>
<b>(Loss)/gain on sale of business</b>	<b>(0.1)</b>	<b>0.1</b>	<b>(0.1)</b>	<b>(0.1)</b>
<b>Profit/(loss) before tax</b>	<b>4.2</b>	<b>(0.5)</b>	<b>(4.0)</b>	<b>(0.3)</b>
<b>Tax (expense)/credit</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>0.8</b>	<b>–</b>
<b>Profit/(loss) after tax</b>	<b>3.5</b>	<b>(0.6)</b>	<b>(3.2)</b>	<b>(0.3)</b>
<b>Basic earnings per share (p)</b>	<b>6.90</b>	<b>–</b>	<b>–</b>	<b>(0.61)</b>

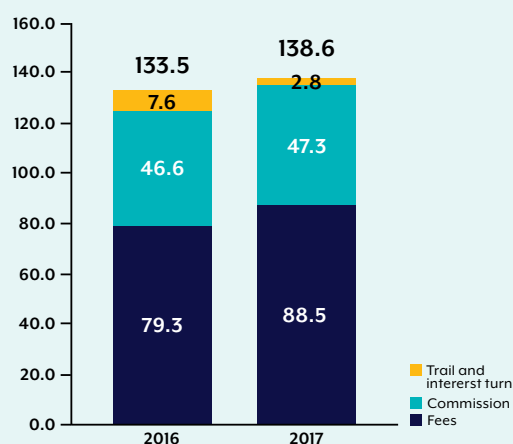
### Note

<sup>1</sup>The 2016 figures for the Core Business have been restated to include the results of EBS Management PLC within held for sale activities so as to report a more appropriate year-on-year comparison.

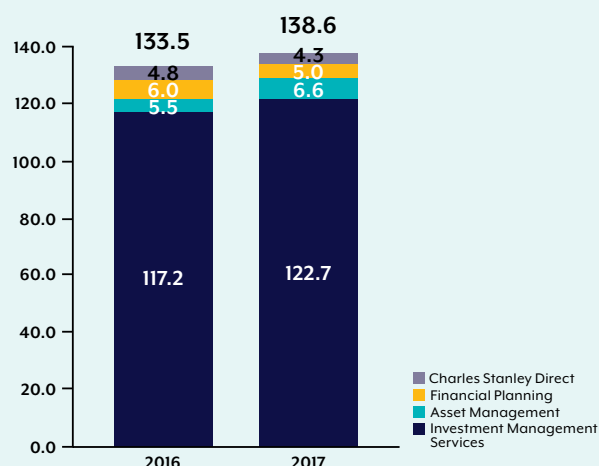
## Core Business revenues

Revenues from the Core Business increased by 3.8% from £133.5 million in 2016 to £138.6 million in 2017. The anticipated reduction in trail commissions and interest earned on client cash balances was more than offset by higher investment management fees largely arising from the uplift in markets seen during the year.

Core Business revenue by type (£m)



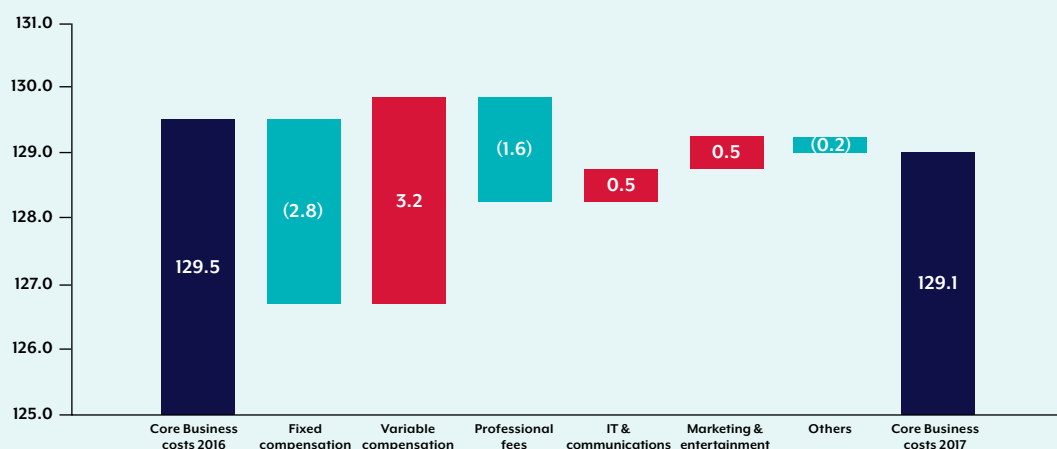
Core Business revenue by division (£m)



## Core Business expenditure

Expenditure within the Core Business has remained relatively flat on prior year at £129.1 million (2016: £129.5 million). The Group's single largest cost is staff costs and these rose £0.4 million as the variable element increased by £3.2 million and the fixed element reduced by £2.8 million. The increase in the variable compensation amount was to be expected given the improved operating performance while the reduction in the fixed element followed a lower average headcount, excluding employees included within held for sale activities, of 778 (2016: 831). Other significant changes in expenditure included increases in IT and marketing spend of £0.5 million each and a £1.6 million reduction in external professional fees.

Core Business expenditure (£m)



### Core Business pre-tax profit

The Core Business pre-tax profit increased from £4.2 million to £9.8 million, reflecting a margin improvement from 3.1% to 7.1%. This was in line with our expectations but still a long way from our stated medium-term target of 15%. To achieve this we need to continue along the path of increasing FuMA and revenues, achieving greater productivity in the front office and improving operating efficiency in the back office.

### Divisional review

The table below shows the Core Business results broken into the Group's four main operating divisions: Investment Management Services, Asset Management, Financial Planning and Charles Stanley Direct. The services provided by each division are set out on page 7.

	Investment Management Services £m	Asset Management £m	Financial Planning £m	Charles Stanley Direct £m	Core Business £m
<b>31 March 2017</b>					
<b>Revenue</b>	<b>122.7</b>	<b>6.6</b>	<b>5.0</b>	<b>4.3</b>	<b>138.6</b>
<b>Expenditure</b>	<b>(109.0)</b>	<b>(6.1)</b>	<b>(7.8)</b>	<b>(6.2)</b>	<b>(129.1)</b>
<b>Other income</b>	<b>0.2</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.2</b>
<b>Operating profit/(loss)</b>	<b>13.9</b>	<b>0.5</b>	<b>(2.8)</b>	<b>(1.9)</b>	<b>9.7</b>
<b>Net finance income</b>	<b>0.1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.1</b>
<b>Profit/(loss) before tax</b>	<b>14.0</b>	<b>0.5</b>	<b>(2.8)</b>	<b>(1.9)</b>	<b>9.8</b>
<b>31 March 2016<sup>1</sup></b>					
Revenue	117.2	5.5	6.0	4.8	133.5
Expenditure	(109.6)	(6.5)	(7.2)	(6.2)	(129.5)
Other income	0.2	–	(0.1)	0.1	0.2
Operating profit/(loss)	7.8	(1.0)	(1.3)	(1.3)	4.2
Net finance income	0.1	–	–	–	0.1
Loss on sale of business	–	–	–	(0.1)	(0.1)
Profit/(loss) before tax	7.9	(1.0)	(1.3)	(1.4)	4.2

<sup>1</sup>The 2016 figures have been restated to exclude the results of EBS Management PLC so as to report a comparable year-on-year performance. Moreover, the comparative results for Investment Management Services and Financial Planning have been restated to account for a number of investment managers who transferred out of the latter to the former at the start of the year.



## Investment Management Services

### Trading review

The financial performance of the Investment Management Services division is largely driven by the value and mix of FuMA, the revenue margin earned on these assets (expressed as a basis point return) and the operating costs associated with managing them comprising both fixed and variable costs.

	2017 £bn	2016 £bn
FuMA	20.3	17.5

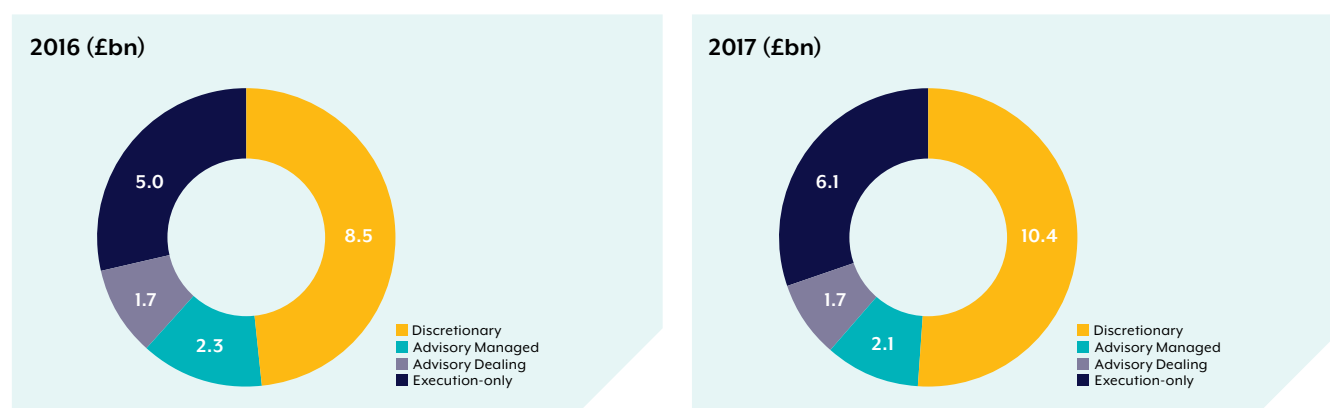
  

	2017 £m	2016 £m
Revenue	122.7	117.2
Direct costs:		
Fixed staff costs	(19.8)	(20.7)
Variable staff costs	(35.5)	(35.3)
Other direct operating expenses	(9.7)	(10.3)
Other income	0.2	0.2
Contribution	57.9	51.1
Allocated costs	(44.0)	(43.3)
Operating profit	13.9	7.8

KPIs:	2017	2016
Discretionary funds per CF30	£42.6m	£32.1m
Discretionary funds as a percent of total FuMA	61.1%	61.7%
Discretionary average client account size	£300k	£261k
Discretionary revenue margin	85bps	84bps
Total revenue margin	65bps	66bps
Staff costs to revenue ratio	45.1%	47.8%
Other costs to revenue ratio	43.8%	45.7%
Operating margin	11.3%	6.7%

The division's FuMA increased by 16.0% overall in line with markets. Discretionary assets grew by 22.4% and now represent 51.2% of the division's overall FuMA. The level of average managed funds per regulated investment manager (CF30), which is a key productivity measure, improved 26.5% to £51.6 million (2016: £40.8 million). One of Management's key objectives is to increase this further with a medium-term target set of £70.0 million per CF30.



Although FuMA grew, overall revenue margins decreased from 66bps to 65bps, largely as a result of a halving of interest turn to 1bp. Whilst this particular element of revenue is likely to decline further, it is anticipated that the revenue margin will begin to increase again as we continue to grow the Discretionary book as a proportion of the whole and phase in a repricing programme across the book. The combined effect of increased FuMA but lower revenue margins led to the division's overall revenues increasing 4.7% to £122.7m (2016: £117.2m).

Total costs for the division were relatively flat on last year at £109.0 million (2016: £109.6 million). Staff costs as a proportion of revenues reduced significantly from 47.8% to 45.1%, largely as a result of the staged implementation of the revised investment manager remuneration model and reduced headcount of 411 (2016: 435).

Overall, the Investment Management Services division reported a 78.2% improvement in its operating profit from £7.8 million in 2016 to £13.9 million in 2017 and its operating margin grew from 6.7% to 11.3%.

## Outlook

The twin challenges faced by the division are to increase revenues through FuMA inflows, repricing and service upselling, whilst improving overall productivity levels which are below top industry standards, most notably in relation to FuMA per CF30 and staff costs ratios. As has been covered in the Strategy progressing section on page 6, we have a wide number of specific initiatives in train to help deliver on these key metrics and remain confident that, subject to stable or improving market conditions, we can continue to deliver progress on the division's overall performance.

## Asset Management

### Trading review

The Asset Management division's performance is driven by Funds under Management (FuM) and the revenue margin earned on these assets. By comparison to the Investment Management Services division, its costs are relatively fixed.

	2017 £bn	2016 £bn
FuM – on platform	1.1	0.8
FuM – off platform <sup>1</sup>	0.2	0.2
<b>FuM – total</b>	<b>1.3</b>	<b>1.0</b>

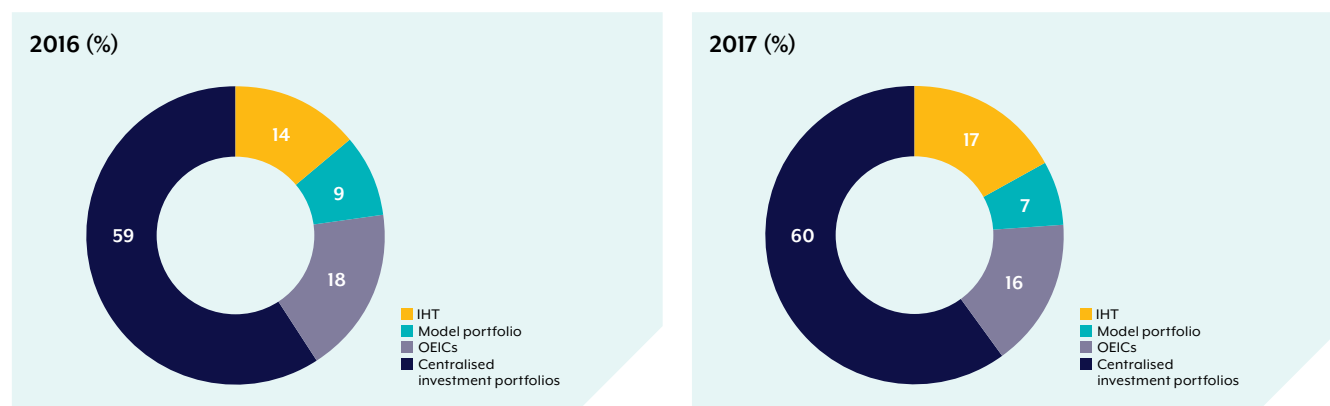
<sup>1</sup>Off platform FuM comprises model portfolios on third party platforms and Open Ended Investment Companies (OEICs) or other clients whose assets are held by a third party custodian.

	2017 £m	2016 £m
Revenue	6.6	5.5
Direct costs:		
Fixed staff costs	(1.7)	(1.9)
Variable staff costs	(0.9)	(1.2)
Other direct operating expenses	(1.0)	(1.5)
<b>Contribution</b>	<b>3.0</b>	<b>0.9</b>
Allocated costs	(2.5)	(1.9)
<b>Operating profit/(loss)</b>	<b>0.5</b>	<b>(1.0)</b>

KPIs:	2017	2016
Revenue margin <sup>2</sup>	59bps	60bps
Operating margin	7.6%	(18.2%)

<sup>2</sup>Revenue margin calculated on total funds (including both on and off platform FuM)

The division's total FuM have grown steadily by 30.0% during the year to £1.3 billion (2016: £1.0 billion). This was due to both investment performance and strong inflows, notably into the Inheritance Tax Portfolio service and the pension and institutional business. These latter accounts are typically of a larger average size and so attract a lower revenue margin which explains the division's slight overall revenue margin reduction from 60bps to 59bps.



During the year, the division underwent a restructuring to rationalise its product offering to make it fit both for the intermediary and institutional market, as well as to provide a scalable range of services for internal and external clients. This enabled the division to reduce its direct costs by 21.7% to £3.6 million (2016: £4.6 million) and overall costs, including Support Functions allocations, by 6.2% to £6.1 million (2016: £6.5 million). Consequently, the division moved from an operating loss in 2016 of £1.0 million to a profit for 2017 of £0.5 million.

### Outlook

After a year of restructuring and reorganisation, the focus for the Asset Management division is now to grow its FuM. Its most scalable business, provision of discretionary model portfolios to the adviser industry, will be a key focus for financial year 2018, taking advantage of a streamlined product suite and an enlarged and retrained Intermediary Sales Team. It also plans to extend its institutional marketing plan to include larger charities, academic institutions and other institutional funds, while continuing to grow the fiduciary management service for defined benefit pension schemes. New literature is being produced to support this marketing effort.

For the firm's smaller clients, we soft-launched our Personal Portfolio Service (PPS) in April. This comprises a range of risk-rated multi-asset model portfolios managed by the division. In the first instance the PPS is being marketed to existing smaller clients of the Investment Management Services division for whom a bespoke solution is likely to be over-engineered and costly. We plan to extend the service to new clients and also to make a non-advised version of PPS available via Charles Stanley Direct. We will look to market the funds more widely as they gain in scale and traction. The Inheritance Tax Portfolio service continues to attract good inflows and there is potential to develop this area further over the coming years.

## Financial planning

### Trading review

The principal driver of the Financial Planning division's performance is now its revenue per financial planner. Historically the division also included some investment management activities which were transferred to the Investment Management Services division at the start of the year.

	2017 £m	2016 £m
Revenue	5.0	6.0
Direct costs:		
Fixed staff costs	(3.6)	(4.1)
Variable staff costs	(0.5)	–
Other direct operating expenses	(1.1)	(1.0)
Contribution	(0.2)	0.9
Allocated costs	(2.6)	(2.2)
Operating loss	(2.8)	(1.3)

	2017	2016
KPIs:		
Number of financial planners	19	23
Revenue per financial planner	£268k	£197k
Operating margin	(56.0%)	(21.7%)

The 2017 financial performance of the Financial Planning division reflected the restructuring the department underwent during the year. Firstly, a number of investment managers who had previously been part of the division and had accounted for £0.7 million of revenues in 2016 transferred to Investment Management Services. Secondly, there were a number of planned departures for under-performing financial planners. These changes led to the division's revenues declining to £5.0 million (2016: £6.0 million) and to an overall increase in its operating loss to £2.8 million (2016: £1.3 million). Underlying these figures, the revenue per financial planner, which is a key productivity metric, rose 36% from £197 thousand in 2016 to £268 thousand in 2017. This was as a result of the measures taken and improved focus. The medium-term target is to achieve £300 thousand per financial planner.

### Outlook

Financial year 2018 is expected to see further investment in the Financial Planning division. It is intended to increase materially the number of financial planners by hiring good quality, experienced practitioners and to improve the productivity of the division by replacing the current business processing system. This investment, coupled with the roll-out of the new Financial Planning value proposition and pricing model, will see the division making an enhanced contribution to the Group and to its commitment to be the leading wealth manager by 2020.

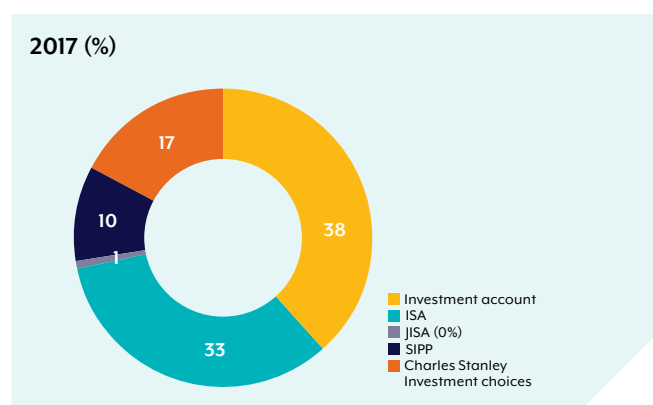
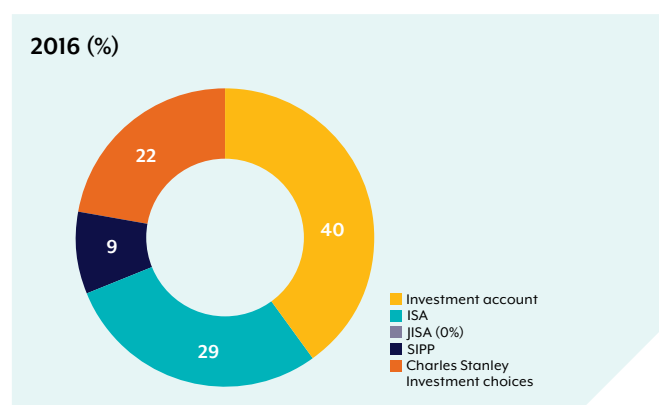
## Charles Stanley Direct

### Trading review

Charles Stanley Direct's financial performance is driven by the value of Assets under Administration (AuA) on which a platform fee is charged and by the number of commission-earning bargains undertaken by clients.

	2017 £bn	2016 £bn
AuA		
Charles Stanley Direct	1.9	1.4
Charles Stanley Investment Choices	0.4	0.4
<b>Total</b>	<b>2.3</b>	<b>1.8</b>

AuA grew 27.8% to £2.3 billion (2016: £1.8 billion). The assets on the Charles Stanley Direct platform increased from £1.4 billion to £1.9 billion during the year, owing both to market increases and client take-on up 29.3% with the platform now servicing around 37,000 accounts. Charles Stanley Investment Choices (previously known as Garrison Investment Analysis) maintained its assets over the year.



	2017 £m	2016 £m
Revenue	4.3	4.8
Direct costs:		
Fixed staff costs	(1.6)	(1.4)
Other direct operating expenses	(1.4)	(1.5)
Other income	–	0.1
Contribution	1.3	2.0
Allocated costs	(3.2)	(3.3)
Operating loss	(1.9)	(1.3)
KPIs:	2017	2016
AuA growth	27.8%	12.5%
Revenue margin	22bps	28bps
Operating margin	(44.2%)	(27.1%)

As anticipated, the division's revenues declined in 2017 by comparison to the prior year owing to the conclusion in February 2016 of white label trading services provided to the Fidelity network which accounted for £0.9 million of revenue in that year. This also accounted for the decline in the division's overall revenue margin to 22bps. Excluding Fidelity, underlying revenues increased by 11% and revenue margins were steady. Overall costs have been kept stable on prior year at £6.2 million. As a result of the reduction in revenues, the division has reported an increase in its operating loss to £1.9 million (2016: £1.3 million).

### Outlook

During the year the division completed a number of initiatives which are expected to help improve performance further during the coming financial year. These have included changes to the pricing tariffs which took effect from November 2016; the mobile optimisation of the website; and changes to processes that make it easier for existing voice-brokered Execution-only clients of Charles Stanley to switch to the Charles Stanley Direct platform. Although the charges for the online service are less than for the traditional voice-brokered service and may therefore lead to a reduction in the overall revenue generated for the Group from this source, we believe it is often in the clients' best interests to make the switch and it enables the Group to provide the service through a scalable delivery platform. It is also the intention shortly to launch the Group's Personal Portfolio Service via Charles Stanley Direct, which will provide guided but non-advised access to the Group's range of risk-rated multi-asset model portfolios.

Having rebranded our fund broking business as Charles Stanley Investment Choices during the course of the year and relaunched its website, this business is set to grow again in the coming year. This is being supported both by a significant paper-based marketing exercise, proactive engagement with existing clients and greater internal marketing within the rest of the Charles Stanley Group. Costs have also been addressed so this activity's contribution is expected to increase significantly in the coming financial year.

## Support Functions

The costs incurred by the Group's support functions are either charged directly to the four main operating divisions, for example market data costs, or recharged as an allocated cost. However, it is worthy of note that an important contribution to the Group's improved profitability is coming about through savings and process efficiencies being achieved in support areas. Examples include changes to automate the transfers process, the dematerialisation of paper holdings using Allfunds as custodian and the streamlining of the client amendment process. Moreover, the London office rationalisation has allowed us to move some support teams to our Chelmsford site and outsource the provision of certain services which will bring further savings on occupancy costs in the coming financial year.

Ongoing costs for all Support Functions for 2017 were £48.8 million, reflecting a 4.5% reduction on the prior year of £51.1 million. The key area of reduction was in fixed employment costs, down by £1.4 million, primarily driven from a 4.4% decrease in headcount. The increased spend in IT and Marketing costs was more than offset by savings on external professional fees (net decrease of £0.6 million on 2016).

As noted above, the Group has achieved a number of operational efficiencies across its Support Functions during the year. Looking forward, we see further opportunity to reduce Support Functions operating costs by reviewing process flows and increasing straight through processing. The extent and pace with which we will be able to do this will in part be dependent on the harmonisation of front office processes. Conversely, we expect to see continued cost pressure in a number of areas including Market data, IT and regulation.

## Held for sale activities – EBS Management PLC (EBS)

Following the announcement on 11 April 2017 that the Group had exchanged contracts for the sale of EBS, the Group's pension administrator, to Embark Group Limited, its results have been presented as held for sale for both 2017 and 2016.

During 2017, EBS grew the number of pension schemes under administration by 18.3% to 15,068 (2016: 12,737) and revenues by 3.5% to £3.0 million (2016: £2.9 million).

The decision to sell EBS was taken because significant investment was required in its operating systems and because pension administration was not a core area of focus for the Group's Management. The disposal, which completed on 31 May 2017, was in the best interest of all stakeholders of the EBS business, and most importantly the underlying consumers. Under Embark's ownership, EBS will continue to provide white label SIPP services to Charles Stanley so we look forward to a long commercial partnership with them.



## Adjusting items

The Board considers the Core Business profit before tax and earnings per share to be a better reflection of underlying business performance than the statutory figures reported in the consolidated financial statements. To calculate the Core Business results the Board has excluded the adjusting items detailed below:

	2017 £m	2016 £m
London office rationalisation:		
1. Net gain on surrender of long-term lease	3.2	–
2. Overlapping rent and occupancy costs <sup>1</sup>	(3.1)	–
3. Dilapidations <sup>1</sup>	0.1	(0.8)
Amortisation of client relationships <sup>1</sup>	(1.6)	(1.6)
Impairment of intangible assets	(0.7)	(0.4)
Profit on part-disposal of investment in Runpath Group Limited	0.4	–
Refund of under-recovered VAT in prior years <sup>1</sup>	0.7	–
Transition bonus accrual <sup>1</sup>	–	(1.4)
Exceptional professional fees <sup>1</sup>	–	(0.8)
Profit on disposal of Matterley Undervalued Fund <sup>1</sup>	–	0.2
Defined benefit pension scheme credit <sup>1</sup>	–	0.8
Net charge from adjusting items	(1.0)	(4.0)

<sup>1</sup>These adjusting items are included within administrative expenses in the Consolidated income statement on page 99.

### London office rationalisation

A number of the adjusting items relate to the rationalisation of the Group's London office footprint. The Group historically occupied five buildings in the City of London and has now consolidated into one building at 55 Bishopsgate. This has enabled the Group to sell the remainder of its long lease at 35 Luke Street to realise a profit but has also resulted in double running costs of the new office whilst it was fitted out prior to occupancy. The specific one-off income and expenditure comprised:

#### 1. Net gain on surrender of long-term lease: (£3.2 million credit)

On 8 September 2016, the Group surrendered the remaining term of its long-term lease at 35 Luke Street for proceeds of £5.6 million. This gain was partially offset by the acquisition costs of the new lease at 55 Bishopsgate of £0.2 million, and a loss incurred on decommissioning the fixed assets held in the vacant London offices at their carrying value of £2.2 million, resulting in a net gain of £3.2 million.

#### 2. Overlapping rent and occupancy costs: (£3.1 million expense)

During the year, the Group incurred double running costs in respect of rent, rates and other occupancy costs of £3.1 million covering both the vacating sites, primarily 131 Finsbury Pavement, and the new offices at 55 Bishopsgate. Since the move of the Group's London employees to 55 Bishopsgate had fully completed by the end of the financial year, no further double running costs are expected.

#### 3. Dilapidations: (£0.1 million credit)

A leasehold dilapidations provision was set up in March 2016 in respect of obligations applicable under the lease agreements of the Group's vacating London sites. The current year credit of £0.1 million represents a release to the income statement of unutilised amounts following the settlement of these obligations.

**Amortisation of client relationships: (£1.6 million expense)**

Payments made for the introduction of customer relationships that are deemed to be intangible assets are capitalised and amortised over their useful life, which has been assessed to be 10 years. This amortisation charge has been excluded from the Core Business profit since it is a significant non-cash item.

**Impairment of intangible assets: (£0.7 million expense)**

During the year, the Group recognised an impairment charge in respect of goodwill held in connection with a departing investment management team based in one of the regional offices for £0.7 million.

**Profit on part-disposal of investment in Runpath Group Limited: (£0.4 million credit)**

In June 2016, the Group entered into an agreement to convert loan notes held in Runpath Group Limited into equity and subsequently disposed of 25% of its enlarged equity holding in the company, resulting in an overall gain of £0.4 million.

**Refund of under-recovered VAT in prior years: (£0.7 million credit)**

During the year, the Group recognised a credit of £0.7 million in respect of under-recovered VAT in prior years.

**Taxation**

The corporation tax charge for the year was £2.5 million (2016: £0.05 million credit) representing an effective tax rate of 28.4%. A detailed reconciliation between the standard and effective rate of corporation tax is provided in note 12 of the Consolidated financial statements.

**Earnings per share**

The Group's reported basic earnings per share for the year were 12.35 pence (2016: loss of 0.61 pence). The Core Business basic earnings per share increased significantly to 15.33 pence from 6.90 pence in 2016.

**Dividends**

The Board has proposed a final dividend of 4.5 pence per share (2016: 3.5 pence per share). Taking into account the interim dividend of 1.5 pence per share, this results in a total dividend for the year of 6.0 pence per share (2016: 5.0 pence per share), an increase of 20%. The proposed total dividend is 2.1 times covered by basic reported earnings and 2.6 times covered by basic Core Business earnings. The recommended final dividend is subject to shareholders' approval, which will be sought at the Company's Annual General Meeting on 27 July 2017.

**Financial position**

The Group maintained its strong financial position with total net assets at 31 March 2017 of £89.1 million (2016: £85.4m) including £58.4 million of cash resources.

The Group operates a defined benefit pension scheme which was closed to new members in 1998 and also closed to further accruals for the remaining 25 active members at 31 March 2016. The most recent actuarial assessment of the Group's defined benefit scheme's liabilities shows a deficit at 31 March 2017 of £10.5 million (31 March 2016: £10.1 million).

During the second half of the year, the Scheme's Trustees changed the investment management strategy of the scheme's assets. The long-term investment objective is now to achieve self-sufficiency which means achieving a funding level whereby scheme assets grow to the same level as their liabilities. A five stage derisking flight plan has been adopted to reduce risk gradually over life of the plan as the scheme nears its objective. Stage 1 of the flight plan, which has involved restructuring the underlying portfolio to increase asset class diversification and building an initial liability hedge of 70% of assets, is substantially complete. Further details on the Group's defined benefit pension scheme and the assumptions underpinning the valuation are provided in note 11 of the Consolidated financial statements.

### Regulatory capital resources

Charles Stanley & Co. Limited, the Group's main operating subsidiary, is an IFPRU 125k Limited License Firm regulated by the FCA. In view of this, the Group is classified as a regulated group and subject to the same regime.

At 31 March 2017, the Group had regulatory capital resources of £61.4 million (2016: £55.4 million):

	2017 £m	2016 £m
Ordinary share capital	12.7	12.7
Share premium	4.4	4.4
Retained earnings	51.1	48.7
Other reserves	16.0	16.4
Regulatory adjustments	(22.8)	(26.8)
<b>Total regulatory capital resources</b>	<b>61.4</b>	<b>55.4</b>

The Group monitors a range of capital and liquidity statistics on a daily, weekly and monthly basis.

As required under FCA rules, the Group maintains an Internal Capital Adequacy Assessment Process (ICAAP), which includes performing a range of stress tests to determine the appropriate level of regulatory capital and liquidity that the Group needs to hold. The last review of the ICAAP conducted and signed off by the Board was in October 2016. Regulatory capital forecasts are performed monthly and take into account expected dividends and intangible asset acquisitions and disposals as well as budgeted and forecast trading results.

The Group's Pillar III disclosures are published annually on the Group's website ([charles-stanley.co.uk](http://charles-stanley.co.uk)) and provide further details about the Group's regulatory capital resources and requirements.

# Risk management and principal risks



**Peter Kelk**  
Chief Risk Officer

The Group's risk management framework is a fundamental component of the operating model and is embedded across all processes and controls. The Chief Risk Officer (CRO), under the supervision of the Risk Committee, has the principal responsibility for risk awareness, monitoring and management across all areas of the business.

Charles Stanley's approach to risk management is documented in the Group Risk Policy and the Risk Appetite Statement (RAS), which is reviewed, challenged and approved by the Board on an annual basis. The RAS takes into consideration the Group's strategic objectives, strategy and business plans, and underpins the implementation of robust risk monitoring and risk reporting processes which continue to evolve.

The RAS sets out the Group's tolerance to various types of risks and includes both quantitative and qualitative measures against which Management and the Board monitor risk on a periodic basis.

The Board has carried out a robust assessment of the principal risks of the Group including those that may threaten its business model, performance, solvency and liquidity. These are listed out pages 36 to 39.

Set out below is the Director's Viability statement covering the three years to 31 March 2020, which is then followed with an assessment of the principal risks relevant to the Group's long-term performance.

## Viability statement

In accordance with the revised UK Corporate Governance Code, the Directors have assessed the prospects of the Group over the three-year period from 31 March 2017 to 31 March 2020. The assessment of the Group's viability over a three-year time period is in alignment with the Group's strategy, budgeting process and the scenarios set out in the ICAAP.

The Directors consider a three-year time horizon appropriate as it is most meaningful in planning the Group's new long-term strategy; a five-year horizon stretches forecasting inputs and assumptions beyond a realistic threshold.

In assessing the future viability of the overall business, the Directors have considered the corporate strategy (see Strategy progressing) and the changes within the business executed in the last two years, including the significant business divisional restructuring and changes to reward arrangements. They have also considered the business environment of the Group and the potential threats to its business model arising from progressive technological, sectorial, demographic and regulatory changes.



The Board oversees the Group's principal risks (see the Risk Committee report in the Governance section) and is accountable for the Group's risk management by:

- Overseeing the processes and procedures to monitor and mitigate the principal risks
- Reviewing high level management information from key departments which monitor whether the Group is operating within the parameters set out in the RAS linked to the principal risks
- Deciding the appropriate actions if any of the Group's risk appetites are breached.

On a detailed level, extensive management information is analysed by the Enterprise Risk Committee (ERC) which meets monthly and oversees operational risk across the Group by:

- Monitoring quantitative and qualitative management information across the Group to highlight areas of risk which require enhanced or additional controls
- Delegating to the appropriate committees any issues raised as part of the management information which require further action
- Carrying out annual 'deep dive' risk analysis of key departments which are discussed by the Committee and department heads
- Reviewing the reports of the internal and external auditors concerning systems and controls, reviewing the resolution of proposed control enhancements and monitoring any remaining open issues.

The Risk Committee has oversight of the above processes, ensuring the monitoring and escalation procedures are operating effectively and completed in a timely manner (see Risk Committee report on page 86 for details).

The Board reviews and challenges the Group's three-year strategic plan against the principal risks at least annually, stress testing the base case projections by applying multiple shock events. These stresses have been derived from workshops attended by Senior Management, with the use of external events to substantiate the Board's comfort level that the shock events are sufficiently severe and appropriate.

The Group undertakes an ICAAP which is a detailed process owned and overseen by the Board and regularly assesses:

- The Group's processes, strategies and systems
- The major sources of risks faced by the Group that may impact its ability to meet its obligations
- The results of internal stress testing of these risks
- The amounts and types of financial resources and internal capital, including own funds and liquidity resources, and whether these are adequate both as to amount and quality to ensure that there is not significant risk that its liabilities cannot be met as they fall due.




Scenario analysis and stress testing are performed as part of the ICAAP to assess the Group's exposure to a range of extreme but plausible situations, as well as an assessment of the Group's wind-down scenarios and a review of the reverse stress tests which would cause the Group's business model to become unviable.




Based on the results of the latest ICAAP, the Board believes that, by taking the projected actions to reduce expenditure and, if required, dividends, the Group's business model is resilient and holds sufficient capital to survive a range of severe but plausible scenarios.



Given the extensive controls and procedures in place, the Directors are of the opinion that it is reasonable to conclude that the Group has sufficient resources to meet its obligations and continue business operations over the assessed three-year period.




Principal risks	Key mitigants and controls	Trend
<b>Business Model and Strategy Risk</b> The risk that the business model and strategy do not respond in an optimal manner to changing market conditions such that sustainable growth, market share or profitability is adversely impacted.	<p>The Group Chief Risk Officer participates in the setting of Group strategic plans from the beginning and has a voice in the early stage of strategy development, as well as providing a formal report on the strategy and on key business decisions.</p> <p>As part of the strategy setting process, a review is undertaken of the risks to the business model which includes an analysis of internal and external pressures on the Group strategy and the potential threats to its business model.</p> <p>The report is presented to the Executive Committee and the Board alongside the proposed business plan to support the decision making.</p>	
<b>Financial Strength Risk</b> Failing to maintain financial strength in order to support business objectives, meet regulatory capital requirements, and provide shareholders with an acceptable return.	<p>To achieve our financial goals, a series of risk appetite limits have been set around operating margin, cash balances, regulatory capital and dividend cover.</p> <p>These are monitored by the Board on a regular basis.</p> <p>The Group is exposed to interest rate movements directly through its variable rate assets and liabilities. This is tracked by reporting on exposure levels at the Treasury Committee.</p>	
<b>Credit and Counterparty Risk</b> The potential failure of clients or counterparties to fulfil their contractual obligations.	<p>Charles Stanley does not offer any formal lines of credit to clients. The Group however has an exposure to counterparty failures and late payment and settlement. It therefore establishes clear risk appetite limits for client and Group cash placed and maintained with authorised institutions and for trading purposes which must be adhered to by the business.</p> <p>The Group's Treasury Committee is responsible for the initial assessment and ongoing monitoring of deposit-taking counterparties. The following criteria govern how the Group's credit and counterparty risk is managed:</p> <ul style="list-style-type: none"> <li>• Assets will only be placed and maintained with counterparties deemed to be financially sound</li> <li>• Client and Group cash held at any individual counterparty should not exceed its respective limit set by the Treasury Committee unless written approval has been provided</li> <li>• Counterparty limits for the purpose of trading are set by the Market Exposure Committee (MEC)</li> <li>• Counterparties with no set trading limits should be assessed on an individual basis on the day of the trade by the MEC</li> <li>• Breaches of any counterparty trading limits without approval must be escalated immediately to the MEC.</li> </ul>	

Trend:  Increased risk  Static risk  Decreased risk



Principal risks	Key mitigants and controls	Trend
<b>Market Risk</b> The risk of losses arising as a result of exposure to market movements, including foreign exchange and interest rates.	<p>Charles Stanley does not undertake any proprietary trading other than that arising from incidental dealing errors and therefore takes minimal market risks. Dealing losses are captured as operational losses.</p> <p>The majority of the Group's cash is kept in GBP across a number of banks. Limited foreign currency is held only to facilitate settlement and dealing activity on behalf of clients. The Treasury Committee manages the Group's account balances both in GBP and foreign currencies to our requirements and limits exposures to the Group's operational needs.</p>	
<b>Liquidity Risk</b> The risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure such resources at excessive cost.	<p>Charles Stanley's liquidity risk is overwhelmingly short-term in nature and arises predominantly from the settlement of trades within its investment management and execution-only broking business. The Treasury Committee operates within strict policies and procedures approved by the Board to manage the Group's liquidity risk. These include:</p> <ul style="list-style-type: none"> <li>• The Group ensuring that all legal entities have sufficient funds to meet their liabilities as they fall due, with surplus cash transferred on a monthly basis to Charles Stanley &amp; Co. Limited. The Group will ensure that it has overdraft facilities if the Committee considers them necessary to meet liabilities</li> <li>• Utilising financial instruments, which include borrowings, cash and liquid resources, and various items including trade debtors and trade creditors that arise directly from its operations. The credit quality of counterparties is reviewed frequently and we limit aggregate credit exposures accordingly.</li> </ul> <p>The Group has, for many years, not used overdraft facilities for working capital purpose as it has not required such a facility.</p>	
<b>Pension Risk</b> The risk that the cost of the Group's defined benefit pension scheme increases, or its valuation affects dividends, reserves and capital. This would materialise when the pension obligations exceed the assets set aside to cover them.	<p>Charles Stanley continues to support a defined benefit pension scheme which is closed to new members and ceased accruing for existing members in April 2016 and which is reviewed regularly for viability and to remain within an agreed deficit level.</p> <p>Bond yields continued to fall globally during 2016 which has been reflected in the Group's pension deficit levels, which are monitored regularly and stand at £10.5 million at 31 March 2017. The Group is working closely with the trustees of the scheme to reduce the deficit and, where possible, match investments with future liabilities.</p>	




Trend:  Increased risk  Static risk  Decreased risk

Principal risks	Key mitigants and controls	Trend
<b>Operational and IT Infrastructure Risk</b> A material failure of business processes or IT infrastructure may result in unanticipated financial loss or reputational damage.	<p>Charles Stanley has constructed its framework of internal controls to minimise the risk of unanticipated financial loss or damage to its reputation. However, no system of internal control can completely eliminate the risk of error, financial loss, fraudulent actions or reputational damage. The Group records and monitors operational losses and near misses which are reviewed at the Enterprise Risk Committee, with reporting to the Joint Risk Committee and the Board, where required.</p> <p>Management is required to notify the Board of all individual losses exceeding £10,000 and to provide regular reports to the Board on dealing and trading losses. These should not exceed £100,000 in any 12-month rolling period.</p> <p>Insurance cover is in place and reviewed on an annual basis to ensure that there is an appropriate amount of cover to manage the impact of operational losses against our capital reserves.</p> <p>The continuing incidence of low level technical issues are driving the technology risk up. Charles Stanley's strategic change programme and its plans to continue growing the business also inherently lead to an increase to the operational risk profile of the Group, which will continue to invest in its system capabilities and business processes to ensure that it meets the expectations of its customers, complies with regulatory, legal and financial reporting requirements, and mitigates the risk of loss or reputational damage from operational risk events and external threats.</p>	
<b>IT Security and Cyber Security Risk</b> The risk that Charles Stanley's system infrastructure is breached by external counterparties with or without malicious intention. Possible breaches could involve data theft, ransomware or a shutdown of systems.	<p>Charles Stanley has limited appetite for unauthorised or inappropriate access to its IT systems due to the potential disruption to its business operations, adverse customer impacts and damage to its reputation. Similarly, the Group wishes to minimise the threat to its business activities from third party actions such as denial of service attacks.</p> <p>Alongside setting a framework to prevent and detect unauthorised access attempts to its business systems, Charles Stanley seeks to ensure that the systems are resilient to current and emerging threats and maintains a rolling programme of activity which is informed by the day-to-day experience, threat intelligence and any emerging vulnerabilities identified.</p> <p>Although Charles Stanley has not experienced any significant issues in relation to its own cyber security arrangements, the cyber security risk has increased due to the number of high profile attacks suffered by other firms in recent months.</p>	

Trend:  Increased risk  Static risk  Decreased risk



Principal risks	Key mitigants and controls	Trend
<b>People and Conduct Risk</b> The risk that clients or the wider market, as opposed to the Group, suffer detriment as a result of the Group's services, products or activities.	<p>The Group recognises that its reputation and financial success is dependent on the performance and conduct of its staff. Charles Stanley's client-centric culture is founded on the Group's core values of being Caring, Fair and Progressive. It is committed to delivering good outcomes for clients by communicating effectively and providing products and services that meet their needs throughout the customer journey. It acts with integrity in the market, and operates in line with the agreed strategy and within the risk appetite.</p> <p>Eighteen Conduct Outcomes have been identified and will be monitored and reported via various metrics through to the Conduct dashboards. A Conduct and Culture Committee has been instituted in May 2017 to provide enhanced oversight.</p> <p>All clients are risk profiled to ensure that we clearly define, agree and manage our clients' portfolios in accordance with these risk profiles, investment objectives and capacity for loss. Suitability is a major focus which has quality assurance processes in place to assess suitability reviews performed by our staff. Careful monitoring of investment decision-making against the risk profile helps ensure that we achieve appropriate and suitable outcomes for our clients.</p>	
<b>Legal &amp; Regulatory Risk</b> The risk of breaching, or non-compliance with, regulations and restrictions enforced on the industry and the Group, resulting in regulatory censure and/or fines.	<p>The Group has built a reputation as a high-quality provider of wealth management services. This has been carefully developed over many years and as such there is an emphasis on maintaining this status. The risk is monitored and managed by emphasis on compliance with all aspects of relevant regulation, including those of the FCA.</p> <p>There remains a significant regulatory change agenda with the Senior Managers and Certification Regime (SMCR), the Markets in Financial Instruments Directive (MIFID II), the Packaged Retail Investment and Insurance-based Products (PRIIPS) and the General Data Protection Regulation. While in the longer term, the UK exit from the EU will potentially lead to a rewriting of some legislation, until the UK formally leaves and the UK government legislate otherwise, EU-derived legislation will remain in force. The FCA continues to focus on its approach to consumer regulation, with the inherent risk that thematic reviews of historic industry practices lead to unanticipated additional costs.</p> <p>Charles Stanley monitors the changes in the regulatory and legal agenda and has formal projects for major changes to ensure their successful implementation.</p>	

Trend:  Increased risk  Static risk  Decreased risk

# Corporate social responsibility report

In this, our eleventh year of reporting corporate social responsibility (CSR), we are pleased to share the initiatives and actions that the Group has taken over the past year. Our Group Values of being Caring, Fair and Progressive provide a framework within which we operate, and support our approach to doing the right things for our clients, colleagues, the environment, marketplace and the wider communities within which we work.

Being an established and trusted wealth manager, our primary responsibility is the stewardship and preservation of our clients' assets. Each year we report on our aim and activities to further our CSR Policy and practices in our four key areas: business integrity, our people, the community and the environment. Following a governance review that the Group undertook in early 2017, it was agreed that the CSR Committee, which has overseen our CSR initiatives, should be incorporated into the Conduct and Culture Committee, chaired by the CEO. The implementation and management of the CSR Policy continues to be viewed as a Group-wide responsibility, championed from the top, and this report evidences our commitment to reporting openly and honestly on our efforts at all levels across the business.

We recognise the fundamental importance of good corporate citizenship and sensitivity towards the people around us and the areas and communities in which we operate. We appreciate that our business has an environmental and social impact on society through our actions, donations and contribution to the wider economy. We believe in being both responsible and caring.

## Business integrity

The Group is committed to ensuring appropriate client outcomes. Our primary responsibility is to preserve our clients' wealth and maximise investment returns in accordance with our contractual responsibilities, in an appropriate manner and in line with regulatory requirements.



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### Corporate governance

The Group undertook a governance review at the start of 2017 to ensure that Charles Stanley has clear direction, plans, structure, controls and resources, all of which are necessary for financial success and to ensure suitable client outcomes. The Group appreciates that companies which demonstrate a commitment to improving their corporate culture and the conduct of staff, and acknowledge their responsibilities within the local community and markets, are more likely to enjoy a superior reputation. The Group is headed by an effective Board which is collectively responsible for the long-term success of the business. The Board provides leadership within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Group's strategic aims and ensures that necessary financial and human resources are in place for the business to meet its objectives and review management performance. The Board supports the Group's Values, and sets the culture and standards expected of the business, and ensures that obligations to shareholders and others are understood and met.

We follow the corporate governance guidelines contained in the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council and annexed to the Listing Rules of the UK Listing Authority. We ensure that, where practical, the Group complies with the Code. We compete fairly in the markets in which we operate and believe in the concept of business transparency and ethical behaviour. More details can be found in the Corporate governance report on page 52.

### Client care

We are committed to the highest standards of client care and support the regulatory framework, Treating Customers Fairly, from the FCA.

We work with our clients to ensure our relationships deliver investment performance, protection from inappropriate risk and communications that are caring, clear, fair and not misleading.

### Disclosure

At Charles Stanley all individuals are expected to conduct business in such a way as to ensure that appropriate client outcomes are achieved and that business is conducted in a manner that will enhance the Group's reputation and to safeguard against unfair or unethical business practices. Our disclosure policy (concerning instances of whistleblowing and data protection) is monitored and enforced where necessary. Conscious of our obligations under the Bribery Act 2010 and other related rules and regulations, we take a zero tolerance approach to bribery and corruption. We carry out regular risk assessments to determine exposure and possibility of risks, including potential new risks arising within a changing environment, and update our policies, procedures and systems to mitigate them. We have strict Anti-Bribery and Gifts and Hospitality policies in place, and provide regular training to staff to ensure understanding and compliance. We review our approaches on a regular basis and adhere to high level principles for procurement.



4



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- 1 Over 20 runners took part in the City 5k run
- 2 Sandeep Ladva from Operations climbed Kilimanjaro in September
- 3 Nine of the Edinburgh branch took part in the Survival of the Fittest and raised £1,000
- 4 Bootcamp fundraising in the City
- 5 Group Head of HR raised over £4,000 in support of a children's charity in Uganda

## People

Charles Stanley is a people-driven business specialising in the provision of advice and appropriate wealth management to private clients and institutions such as charities and trusts.

We believe that all people should be treated in a fair manner, with due care and consideration, and be given opportunities to progress both for their own benefit and for those with whom they interact. People are and should be at the centre of all we do.

### Employee involvement

Charles Stanley recognises the importance of communication. Over the past year we have significantly enhanced our ability to communicate with staff and to establish two-way channels of dialogue so that people's opinions can be heard and suggestions made. The Company now publishes a regular magazine highlighting staff achievements and news. We also recognise individual actions; for example, employees who had gone beyond what was expected of them were publicly acknowledged at an award ceremony at the Group conference in January 2017. Internal communications have been enhanced to such a high degree that the Group's Head of Communications has been short-listed as a Rising Star of the Year in the inaugural Women in Finance Awards 2017, which is supported by HM Treasury's Women in Finance Charter.

In 2015 the Group launched its first staff engagement survey, recording an overall engagement score of 56%. The results of our second survey, held in November 2016, resulted in an 11% enhancement, raising the score to 67%. This uplift reflects the work that has been done over the past year to enhance the working environment. Many successful initiatives were proposed, designed and then achieved by staff working together in self-nominated, cross-divisional and departmental workstreams.

## Training

The Group believes in having a highly trained and professional workforce, well equipped to provide the service that our clients require and deserve.

We launched the Group Leadership Development Programme in November 2016 to enhance the skills of our leaders during this period of change. In addition the first cohort delivered a project sponsored by the CEO, to improve the working environment and our position within the wider community via a range of actions. We have a dedicated Learning and Development team who work with staff at all levels across the organisation to ensure that they have the right skills and approach to do their work as expected and in an appropriate manner.

## Benefits

In addition to base salary and the potential for earning a performance-related, discretionary bonus, the Group provides a range of benefits to attract, motivate and retain suitable, high-calibre individuals. All employees are able to benefit from life assurance, permanent health insurance and an above-market employer contribution towards their pension. In addition people can choose from a comprehensive selection of flexible benefits, namely childcare vouchers; Kids Pass (family discounts at a range of child-friendly venues); Babylon (private doctor or specialist consultation); cancer screening; dental insurance; health screening; the opportunity to purchase up to five days' holiday; fitness and leisure club membership; will writing; access to an approved cycle to work scheme; season ticket loans; Gourmet Society (dining discounts); phone and laptop purchase with the opportunity to pay in instalments through salary deductions; charitable giving in a tax-efficient manner; and access to shares via a Save As You Earn plan that provides shares at a discounted rate, as well as a Share Incentive Plan for the tax-efficient purchasing of Charles Stanley shares.

## Diversity

Diversity and inclusion are important issues for Charles Stanley. The Innovation Through Inclusion Group was founded in January 2016 to foster a supportive, diverse and inclusive culture across the Group and to propose initiatives to enhance the business, for example by broadening sources for recruitment, introducing a mentoring programme, encouraging flexible working, inviting external speakers, participating in networking groups and attending external events. We believe in recognising, accepting and valuing differences and, where appropriate, capitalising on them to accelerate the Group's growth. A diverse workforce adds value to our business. It helps us understand clients and counterparties from all walks of life and creates compelling wealth management services that are appropriate for our clients. An inclusive workplace culture helps us attract the most talented people from all backgrounds.

We are committed to challenging discrimination in all its forms and ensuring that equality lies at the heart of everything we do. We want to be a fair and unbiased organisation, one where everyone accepts difference between individuals and values the benefits that diversity brings.

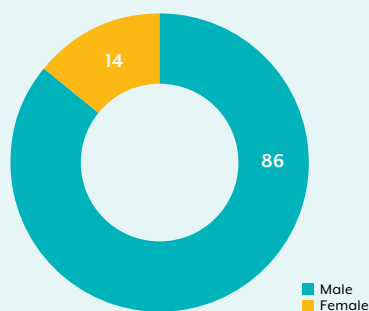
As a provider of services to private clients we need to be proactive, so that we can meet the changing needs of diverse communities and provide an environment where dignity and individuality is respected and promoted.

As an employer we strive to build on our culture in which diversity is valued and staff can promote equality and are comfortable to challenge when appropriate. Specific questions relating to diversity and inclusion were included in the 2016 Engagement Survey with follow-up focus groups to discuss matters raised. We are committed to responding swiftly and appropriately whenever action is required.

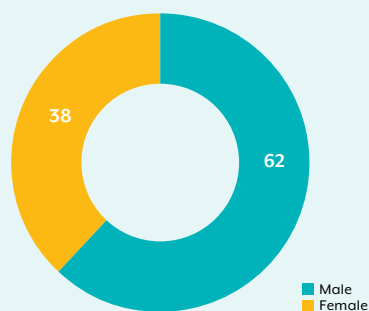
The Group has a clearly defined diversity policy which is reflected in our recruitment processes, support of flexible working and our equal opportunities policy.

The Group is aware of the Government's recommendations on gender diversity and HM Treasury's Women in Finance Charter. At 31 March 2017, women represented 38% of all Charles Stanley employees and 25% of the Non-executive Directors are female.

Male vs female split across the CSG Board (%)



Male vs female split across Charles Stanley (%)



## Community

Charles Stanley has a tradition of fostering strong relationships with the people and communities in the areas in which it operates. We have links with local businesses, schools, colleges, charities and clubs. We believe in being socially responsible and wish to make a positive contribution and build a sustainable legacy, both locally and nationally, as a responsible business leader. We believe that we should seek to support an environment in which people and organisations can survive and thrive.

Part of the rationale for opting for the catering specialists, CH&Co, who work onsite through their subsidiary, Lusso, in the Charles Stanley Head Office at 55 Bishopsgate, was due to their excellent approach towards the environment and their impact on local communities, including sponsoring sustainable farming and fishing and providing training for children and students at an inner-city farm.

This year Charles Stanley has become a supporter of the Marylebone Cricket Club Foundation (MCCF) initiative to promote cricket, and thereby the health and wellbeing of young people. The MCCF has established 41 'Hubs' across the UK to identify talented athletes in state schools between the ages of 11-15 and provide them with professional coaching. Charles Stanley is proud to be supporting the Hub in Tower Hamlets and is actively involved in supporting young people in the area.

In February the annual Charlottetown Jubilee Trust Guildford Pancake Race took place on the picturesque, cobbled streets of Guildford. Our Guildford Branch Manager, Charles Turton, is a Director of the Trust, and in conjunction with the local radio station, Charles Stanley sponsors this event. The race, together with its various events, has become a tradition and is much valued by the local community.

### Schools

The Group has for many years provided support to Lawdale Primary School via the Tower Hamlets Business Education Partnership. Each week a group of London-based employees assists pupils at the school, by helping them with their reading. All parties involved benefit from the experience.

*Through the hard work and generosity of Charles Stanley's staff, £41,000 was raised for the Head & Neck Cancer Foundation*

## Charities

The Head & Neck Cancer Foundation was chosen by a staff vote to be the Charles Stanley Charity of the Year. This charity was founded by doctors and supports ground breaking research into the treatment of head and neck cancer: 'A brush with cancer is perhaps something that will always, internally, leave a deep mark, but, via the specialist skills provided by the charity, patients can have treatment that does not require them to be openly scarred for life.'

Through the hard work and generosity of Charles Stanley's staff, £41,000 was raised (£6,000 of which was a direct donation from the Company). The money will be used to help introduce Sentinel Node Biopsy (SNB) which will revolutionise the management of mouth cancer in the UK. Currently, without SNB, all patients with mouth cancer undergo a complex 3-hour neck dissection operation, in order to protect the 30% of patients in whom the disease has spread. This means that 70% of patients have a major and avoidable operation.

## Environment

In 2016 the Group consolidated its London estate which comprised five properties into a single Head Office providing many opportunities to reduce environmental impact.

### Health and Safety

The Group is committed to providing a workplace that not just meets but exceeds the required health and safety standards.

### Greenhouse gas emissions report

The report details the Group's Greenhouse Gas (GHG) emissions for the 12 months ended 31 March 2017.

Charles Stanley is mindful of its impact on the environment and has taken action over the past year to significantly reduce emissions, for example by vacating less energy-efficient buildings in Finsbury Pavement and Luke Street in London, and consolidating into a single London site at 55 Bishopsgate. Other offices such as Cirencester and Bath have been amalgamated, in this case, into the existing premises in Bath. The new London office benefits from an innovative fit-out that includes energy-efficient measures such as LED lighting. The Group is pleased to share information relating to the Group's energy consumption and resultant emissions. This data has been verified and the emissions calculated by the independent energy reduction specialists EnStrat (UK) Limited.



The majority of emissions generated are associated with the cooling and power for data rooms, together with heating, cooling and lighting for the Group's various business premises around the UK. Over the past year Charles Stanley

has succeeded in noticeably reducing its carbon footprint. The Group is required to report on the annual quantity of GHG emissions in tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e). This report is split into two aspects:

- Scope 1, relating to direct emissions that are from sources directly controlled by the Group:

Activity	2017		2016	
	Consumption	Emissions tCO <sub>2</sub> e	Consumption	Emissions tCO <sub>2</sub> e
Natural Gas	206,881 kWh	38.1	306,699 kWh	56.6
Diesel for generators	40 litres	0.1	80 litres	0.2
Fuel for Group-owned vehicles	44,595 Miles	13.3	37,032 Miles	11.1
Fugitive emissions from air conditioners	31.0 Kg	64.7	33.5 Kg	69.9
<b>Total</b>		<b>116.2</b>		<b>137.8</b>

- Scope 2, relating to emissions from indirect sources. For Charles Stanley, this is solely in the form of purchased electricity:

Activity	2017		2016	
	Consumption	Emissions tCO <sub>2</sub> e	Consumption	Emissions tCO <sub>2</sub> e
Grid electricity	3,830,413 kWh	1,578.3	3,897,148 kWh	1,801.0
<b>Total</b>	<b>3,830,413 kWh</b>	<b>1,578.3</b>	<b>3,897,148 kWh</b>	<b>1,801.0</b>

The year-on-year reduction was primarily due to the closure of coal fired power stations in the UK and the increased usage of renewable energy sources, combined with the vacation of less efficient buildings in London.

The Group continues to procure all of its electricity from 'green' renewable energy sources and remains committed to reviewing and, where possible, acting upon opportunities identified to reduce emissions.

#### Environmental initiatives

- Recycling – In 2016 Charles Stanley recycled 60,940 kg at 25 and 35 Luke Street, 10,960 kg at 131 Finsbury Pavement and 2,370 kg at 55 Bishopsgate. This is equivalent to a total of 102,870 kg of CO<sub>2</sub> or 663 trees.
- Stationery – 51% of stationery purchased during 2016 was in category 3 or above, defined as 'easy to recycle or from sustainable sources' or with better environmental accreditation.

- Relocation – Recycling and re-use were paramount in the process of the consolidation of the five London buildings into one. More than half of the desks in the new building were re-used. All the filing storage was existing stock. Chairs were re-used, and where it was necessary to replace non-compliant chairs, they were replaced with recycled and refurbished stock. All the furniture that was surplus to requirements was removed by a company that specialises in recycling and refurbishing second hand furniture.

#### Investment

While the overall investment policy of the Group is concerned solely with obtaining the best return for clients, in addition to the financial analysis that occurs as part of normal investment procedures, we also offer our clients a completely personal, socially responsible investment service that takes into account their personal preferences in relation to environmental and ethical matters. The phrase 'focusing on you' reflects the way that we operate. We understand that people are individuals and hence are committed to providing a bespoke wealth management service.

# Chairman's introduction



**Sir David Howard**  
Chairman

During the year we have restructured the Group's governance framework to differentiate clearly the Board responsibilities of Charles Stanley Group PLC (CSG), the listed holding company, from those of Charles Stanley & Co. Limited (CSC), our principal regulated operating subsidiary.

Under the new framework, which came into effect in March 2017:

- The CSG Board has been charged with the responsibility to set strategy for the Group and to monitor the performance of the operating subsidiaries
- The CSC Board has been charged with the responsibility to oversee, govern and direct the operation of CSC and the Group's other regulated subsidiaries in line with the Group strategy.

Consequently, the bulk of the regulated activity and focus now rests with the CSC Board. The composition of the CSC Board has also changed; Gary Teper and myself have stepped down as Directors of CSC and Andrew Didham has been appointed as Chairman. I remain Chairman of CSG and Gary Teper also remains a Director of CSG.

Under the new structure, the CSG Board will meet quarterly and the CSC Board 6-8 times each year.

Our CEO, Paul Abberley, has been charged with implementing the strategy set by the CSG and CSC Boards; with the day-to-day decision-making and running of the business; and for fulfilment of regulatory obligations. To assist him with the discharge of these duties, the CEO has formed an Executive Committee comprising senior managers from across the Group, though responsibility rests with the CEO rather than with the Executive Committee. This clarity of individual responsibility is reflected throughout the executive chain of command in preparation for the Senior Managers and Certification Regime which, for the Group, is expected to come into effect from May 2018.

The Group's committee structure remains unchanged, except that:

- The Audit, Remuneration and Risk Committees now operate as joint committees of both Boards
- CSC has now established a separate Nomination Committee; I chair the CSG Nomination Committee and Andrew Didham chairs that of CSC.

While this and the Corporate governance reports have been prepared during the transitional period to the new governance structure, the period on which they are reporting was largely under the previous structure, during which each Board committee's duties were in respect of the whole Group.

At 31 March 2017, the CSG Board comprised seven directors: the Chairman, three independent Non-executive Directors and three Executive Directors. Anthony Scott and Mike Lilwall resigned as Directors of CSG on 18 April 2016 and 23 November 2016 respectively.

The structure and representation of the various Board committees is shown on the right. The roles, main responsibilities and achievements during the year are set out in their respective reports on pages 48 to 51.

The Group's Executive Committee, chaired by Paul Abberley, and the underlying management teams have delivered further progress towards the Group's strategic objectives.

The biographies of the Board of Directors and Executive Committee members are set out on pages 48 to 51.

Charles Stanley operates in a highly and constantly developing regulatory environment. Therefore a great deal of time has been dedicated by the Board and committees to regulatory matters to ensure that a robust compliance framework is appropriately embedded within the Group's day-to-day activities. Our values revolve at all times around the best interests of our clients and the Board proactively seeks to promote and embed that in our culture.





## Board and committee structure



# Board of Directors

## Executive



**Paul Abberley**  
BA (Hons)  
Chief Executive Officer

Paul Abberley was appointed to the Board and became Chief Executive Officer following regulatory approval in December 2014. From April 2016, Paul also took over the oversight of the Financial Planning and Charles Stanley Direct divisions. A graduate of Keble College, Oxford, Paul joined Charles Stanley as Chief Investment Officer in June 2014. Prior to this appointment Paul was the interim Chief Executive Officer of Aviva Investors Holdings Ltd and Aviva Investors Global Services Ltd, and a member of the Aviva Group Executive Committee, leading a series of strategic realignments with Aviva Investors Holdings Ltd where he had worked since 2008. Prior to Aviva Investors, Paul spent eight years at ABN AMRO Asset Management as Chief Investment Officer for the company's Fixed Income and Investment Solutions Division as well as being Chairman of the company's London Board and a member of the Global Executive Management Team.



**Ben Money-Coutts**  
BA (Hons), ACA  
Chief Financial Officer

Ben Money-Coutts was appointed as Chief Financial Officer in March 2015. Ben joined Charles Stanley in May 2013 from Saltus Partners LLP where, since 2007, he had been a Partner, Chief Financial Officer and Chief Operating Officer. Prior to Saltus LLP Ben was Head of Corporate Broking at Bridgeway Securities. He qualified as an ACA at Arthur Andersen, worked at Charterhouse from 1987 to 2000 and was then a Corporate Finance Managing Director at ING Barings from 2000 to 2003. Prior to becoming CFO, Ben's roles within Charles Stanley included acting as Chief Operating Officer of the Charles Stanley Financial Services division and separately as interim Group Head of Compliance.



**Gary Teper**  
LLB (Hons), MSc, MCSI  
Head of Investment  
Management Services

Gary Teper joined Charles Stanley in November 1998. In 2000 he was appointed Group Company Secretary, in 2005 he was appointed a Director of Charles Stanley & Co. Limited and in July 2012 he was appointed to the Board of Charles Stanley Group PLC. Gary is a qualified solicitor and has an MSc in Financial Regulation. He is responsible for the Investment Management Services division and has oversight of the Legal and Human Resources functions. In October 2016, Gary joined the Board of the Chartered Institute of Securities & Investment as a Trustee.

## Non-executive



**Sir David Howard**  
Bt. MA, DSc, FCSI (Hon)  
Chairman and Non-executive  
Director

Sir David Howard joined Charles Stanley in 1967. He became Managing Partner in 1971, Managing Director in 1988 and Chairman in 1999. He was Lord Mayor of London in 2000–2001. He has served as a Director of the Chartered Institute for Securities & Investment (CISI) and on London Stock Exchange, CREST and LIFFE Committees. He has also served as a Director of the Financial Services Skills Council, as Chairman of the Council of City University, as President of the Chartered Management Institute and as Chairman of the CISI Examinations Board. He is an alternate member of the Takeover Panel and serves on the CREST Settlements Appeals Panel. He is a Director of The Wealth Management Association (the private client stockbrokers' trade association). Sir David is Chairman of the Group's Nomination Committee.



**David Pusinelli**  
MA (Oxon), ACA  
Independent Non-executive Director

David Pusinelli joined Charles Stanley as a Non-executive Director in September 2012. David has extensive experience within the financial services sector, qualifying as an accountant at Coopers & Lybrand before joining Close Brothers Group plc in 1986. From 2002 to 2008 he served on the main board of Close Brothers as Director of Corporate Development. He also held directorships in the asset management, banking, corporate finance and securities divisions. He is a consultant of Renaissance Asset Finance Limited. David is the Senior Independent Director and Chairman of the Group's Audit Committee.



**Bridget Guerin**  
MA (Cantab)  
Independent Non-executive Director

Bridget Guerin joined Charles Stanley as a Non-executive Director in September 2012. She has over 30 years of experience in the financial services industry, most recently serving as a Director of Matrix Group Limited. Prior to that Bridget was Marketing Director of Schroder Unit Trusts Limited. Bridget is Chair of the Group's Remuneration Committee and until January 2016 was also Chair of the Group's Risk Committee. Other appointments include Mobeus Income & Growth VCT, Schroder Income Growth Fund PLC, Cantab Quantitative Fund, Cantab Core Macro Fund and Cantab Capital LTIP Limited. She is also a member of the York Race Committee and a trustee of the York Racecourse Pension Fund.



**Andrew Didham**  
BA (Hons), FCA  
Independent Non-executive Director

Andrew Didham joined Charles Stanley as a Non-executive Director in September 2015. Andrew is a member of the board of NM Rothschild & Sons Limited and was Group Finance Director of the worldwide Rothschild group between 1997 and 2012. Until 2014 he was a member of the Rothschild Group Management Committee. A partner of KPMG from 1990 to 1997, Andrew is a Fellow of the Institute of Chartered Accountants in England and Wales. Andrew is also a non-executive director of Shawbrook Group plc and chairman of its audit committee. In addition to his broad general management role in Rothschild, his past experience includes audit responsibility for a number of global financial institutions, assignments on behalf of the Bank of England and of the EU, and extensive dealings with regulatory authorities in Europe, Asia, Australia and the USA as well as the UK. Andrew is Chairman of the Group's Risk Committee, and of CSC's Board and Nomination Committee.

## Executive Committee

The Executive Committee comprises the Executive Directors listed on page 48 and the following senior managers:



**Christopher Aldous**

Head of Asset Management  
and Distribution

Christopher Aldous joined Charles Stanley as Managing Director of Pan Asset in 2013 and became Head of Distribution in January 2015 and Head of Asset Management in October 2015. He was appointed to the Executive Committee in January 2015. Prior to this he spent over five years as the Chief Executive of Evercore Pan Asset Capital Management, which was acquired by Charles Stanley in December 2013.



**Michael Bennett**

Chief Operating Officer

Michael Bennett was appointed as Charles Stanley's Chief Operating Officer and to the Executive Committee in January 2015, having joined the Group as IT Director in November 2008. Previously, Michael spent eight years as the IT Director for Direct Wines where he was also a member of the Direct Wines Board.



**Howard Burchett**

Director of Private Clients

Howard Burchett was appointed to the Executive Committee in March 2017. Howard is an investment manager with over 30 years of city experience including 24 years' continuous service initially with Shaw & Co who were acquired by Charles Stanley in 1997. He manages investments for a wide range of private clients, trusts and charities.



**Steve Jones**

Head of Compliance

Steve Jones joined Charles Stanley as Group Head of Compliance and Money Laundering Reporting Officer in July 2016. He was appointed to the Executive Committee in March 2017. Steve was previously Head of EMEA Compliance for Julius Baer following its acquisition of the non-US wealth management business of Bank of America, where he supported the successful integration process.



**Peter Kelk**

Chief Risk Officer

Peter Kelk was appointed as Chief Risk Officer of Charles Stanley in November 2014 and was appointed to the Executive Committee in January 2015. Previously a managing director at Merrill Lynch Wealth Management, Peter has a broad experience gained over many years in a variety of key disciplines, functions and divisions, including Wealth Management, Global Markets, Finance, Sourcing & Procurement, Fixed Income Sales and Operations.



**Andrew Meigh**

Managing Director of Financial  
Planning

Andrew Meigh joined Charles Stanley as Director of Strategic Development in 2012 and was appointed to the Executive Committee in March 2017. He has been Managing Director of the Financial Planning division since March 2016, in which time he has overseen a major restructuring and repositioning of the business.



**Kate Griffiths-Lambeth**  
Director of Human Resources

Kate Griffiths-Lambeth joined Charles Stanley as the Group's first HR Director in October 2015 and was appointed to the Executive Committee in March 2017. Prior to joining Charles Stanley, Kate was Global Head of HR and an Executive Director of Stonehage Fleming, the leading multi-family office. Before that, Kate held senior positions at White & Case, RBS and Lloyds Banking Group.



**Chris Harris-Deans**  
Director of Investment  
Management Development

Chris Harris-Deans joined Charles Stanley in 2007 when the firm opened a branch in Exeter. Chris was Exeter branch manager from 2007 until 2014 when he became Director of Regional Development. Chris was appointed Director of Investment Management Development in 2016 and became a member of the Executive Committee in 2017. Prior to Charles Stanley, Chris was Divisional Director at Gerrard where he worked for 11 years.



**Magnus Wheatley**  
Managing Director of  
Charles Stanley Direct

Magnus Wheatley joined Charles Stanley in 2007 as Head of Press & Public Relations and was appointed to the Executive Committee in March 2017. Having worked closely with the Charles Stanley Direct relaunch from 2013, he was appointed Managing Director of Charles Stanley Direct in May 2016 and has led the restructure of the division with a focus on team engagement, cost control and top line growth.



**Dominic Wilson**  
Head of Business Change

Dominic Wilson joined Charles Stanley as Head of Business Change in February 2016 and was appointed to the Executive Committee in March 2017. Dominic was previously the Head of Transformation for Distribution and Digital change at Aviva Investors, leading a series of strategic implementations.

# Corporate governance report

## Compliance with the code

The Directors recognise the benefits of good corporate governance and this report, together with the Directors' report (pages 89 to 91), and the Strategic report (pages 4 to 45), describes how the Group has applied the Main Principles and complied with the Provisions of the UK Corporate Governance Code 2014 (the Code). The Code is available on the FRC website <https://www.frc.org.uk/Our-Work/Corporate-Governance-Reporting/Corporate-governance.aspx>. The Directors ensure that the Group keeps up to date with all corporate governance developments and best practice wherever practical.

The Chairman's introduction referred to the governance review undertaken during the year, within which a number of the Code's provisions have been addressed. These are set out in the relevant sections of the governance disclosures. The Board has carried out a review of its compliance with the relevant provisions of the Code throughout the year and confirms that the Group has complied with all relevant provisions of the Code during the year, though, the Chairman was not independent on appointment in 1999; A.3.1 of the Code refers.

## Leadership

The Board of the Parent Company, Charles Stanley Group PLC, has provided leadership to and is responsible for the long-term success of the Group. The Board has determined the Group's strategy and has overseen its implementation and the operations of the Group. The Executive Committee has managed the day-to-day running of the Company. Those responsibilities were adjusted in the governance review, as set out in the Chairman's introduction to this section, but the Board continues to retain ultimate responsibility.

The roles of the Chairman and Chief Executive are separate and clearly defined and have been approved by the Board. Sir David Howard, the Group's Non-executive Chairman, is responsible for the leadership of the Board and for ensuring its effectiveness in all aspects of the role. The Chief Executive, Paul Abberley, has responsibility for the day-to-day management of the Group.

As at 31 March 2017 the Board comprised seven Directors: the Chairman, three independent Non-executive Directors (NEDs) and three Executive Directors. No individual or group of individuals therefore has unfettered powers of decision. The NEDs provide challenge in respect of all matters before the Board, and contribute to the development of strategy at both the annual strategy forum and during the year.

## Independence

Andrew Didham, Bridget Guerin and David Pusinelli have been determined by the Board to be independent. The NEDs provide a robust, independent element on the Board and they constructively challenge and examine the performance of Management. They bring well-considered and constructive opinions, skill and knowledge to Board discussions. Sir David Howard, because of his previous role as Chief Executive and his shareholding in the Company, is not considered to be independent.

## Board operation and delegation of authority

The Board met 16 times during the year to review financial performance and strategy and to follow a schedule of matters reserved for the Board. The Board held strategy meetings in May 2016 and February 2017 at which members of the Executive Committee presented their proposals for the strategy as set out in the Strategic report on pages 4 to 45. The Board attendance of the Directors during the year is shown in the table on the next page. The number of meetings attended is shown first, followed by the number of meetings that the Director was eligible to attend as a member of the Board if different to the total. Typically, papers are circulated to the Directors a week in advance of each meeting. The Company has for many years used a portal system to support the Board and Board committee meetings which is believed to improve the efficacy and security of the supply of information to Directors.

Board initiatives during the year included:

- Revision of the investment managers' remuneration arrangements
- Governance review
- Establishment of the Innovation Through Inclusion Group to address diversity and inclusion issues
- Sale of EBS Management PLC.

The following builds on the high-level statement of the responsibilities of the Board, CSC Board and CEO set out in the Chairman's introduction.

Matters reserved to the CSG Board include:

- Setting Group business strategy
- Approving the Group's financial budget
- Approving interim dividends and recommending any final dividends to shareholders
- Setting Group remuneration policy
- Communications with shareholders
- Appointments to the Group's Boards and Board committees, following recommendation by the Nomination Committee.

Matters delegated to the CSC Board include:

- Setting CSC business strategy
- Approving CSC's financial budget performance against the agreed risk appetite
- Regulatory oversight and managing the relationship with the FCA
- Setting desired customer and conduct outcomes
- Appointment of the CRO.

Matters delegated to the CEO include:

- Execution of business strategy
- Day-to-day management of the regulated business
- Managing performance against approved strategy and budgets
- Allocation of resources
- Ensuring compliance with statutory and regulatory obligations
- Embedding appropriate culture, behaviours and desired customer and conduct outcomes
- Leading business development.

Typically, these will be discharged through the Executive Committee, whose members and biographies are shown on pages 48 and 50.

	Board	Audit	Nomination	Remuneration	Risk
<b>Number of meetings held during the year</b>	<b>16</b>	<b>5</b>	<b>2</b>	<b>5</b>	<b>5</b>
Paul Abberley	16	–	–	–	–
Ben Money-Coutts	16	–	–	–	–
Gary Teper	15	–	–	–	–
Sir David Howard	16	–	2	–	–
David Pusinelli	12	4	2	4	4
Bridget Guerin	16	5	2	5	5
Andrew Didham	16	5	2	5	5
Michael Lilwall	8/11	–	–	–	–



## Effectiveness

Information regarding the Directors and their experience is given in their biographies on pages 48 and 49, which is offered to shareholders in support of the re-election of all directors at the AGM.

David Pusinelli, the Senior Independent Director, has decided not to offer himself for re-election as a Non-executive Director at the forthcoming AGM.

The Board has established a Nomination Committee to consider the balance of skills, experience, independence and knowledge available to ensure the Board and Board committees are enabled to discharge their respective duties and responsibilities effectively. So as to further strengthen the effectiveness of the Board and in view of David Pusinelli's decision to step down in the coming year, the Board is in advanced stages in seeking additional NEDs with wealth management experience and also a strong understanding of operational matters within the wealth management sector, with the hope of making appointments in the near future.

Wealth management industry experience was confirmed as an area for focus for recruitment or development when the Board members assessed their own experience and that of their peers via a skills matrix during the governance review. As a consequence, both the matrix results and the redefined Role Description for a NED were taken into account for the purpose of the recruitment of a new independent NED. Further details of the responsibilities and activities of the Nomination Committee throughout the year are detailed on page 60 of this report.

None of the Executive Directors have any external directorships. The NEDs' service contracts include an expectation of their time commitment and their allocation of time to the Group is reviewed annually.

Taking into account any previous experience they may already have as directors of a public limited company, appropriate training and induction is provided to all new Directors. The induction process includes meeting with Executive Directors, the members of the Executive Committee, relevant business heads and other senior executives. New Directors will also receive information from past meetings. To assist with continuing professional development needs, all Directors are collectively provided with updates on matters relevant to the business and the environment in which it operates.

Following the self and peer scoring of all Executive and Non-executive Directors, utilising a skills matrix, the Chairman reviewed the results and used them to support him when considering the training and development needs of both the Board as a whole and of individual directors. Appropriate development and training initiatives have been commenced.

During late 2016 and early 2017, with support from external consultants, the Group underwent a review of its governance framework; this included an evaluation of the performance of the Boards, Committees and the Directors. Changes to enhance performance, where appropriate, have been approved by the Board and introduced.

The Group is committed to extending the proportion of female employment and representation; 14% of the Board is female. Further details about diversity in the Company are contained in the Corporate social responsibility report on page 40.



## Accountability

This Annual report includes a number of disclosures which set out the Company's position and prospects. The Statement of Directors' responsibilities confirms that the Directors believe those disclosures to be a fair, balanced and understandable assessment and it is the Auditor's opinion that the financial statements give a true and fair view of the Group's affairs.

The Board has established a Risk Committee to consider the nature and extent of the principal risks it is willing to take in achieving its strategic objectives, which is closely supported by the CRO and reports to the Board. Separately, the Board considers a report from the CRO at each of its Board meetings. Disclosures regarding provisions C.2.1 and C.2.3 of the Code are contained in the Risk management and principal risks section on page 34. Further details of the responsibilities and activities of the Risk Committee throughout the year are detailed on page 86 of this report.

The Board has established an Audit Committee to consider corporate reporting, internal controls and to manage the relationship with the external auditor. Further details of the responsibilities and activities of the Audit Committee throughout the year are detailed on page 56 of this report.

## Remuneration

The Board has established a Remuneration Committee to consider and approve the Executive Directors' remuneration arrangements and to ensure that those arrangements are designed to promote the long-term success of the Company and that any performance-related elements are transparent, stretching and rigorously applied. Further details of the responsibilities and activities of the Remuneration Committee are set out on pages 62 to 85 of this report.

Led by the Senior Independent Director, David Pusinelli, the Non-executive Directors also met without the Chairman present to discuss the evaluation of his performance, having taken into consideration separate consultation with the Chief Executive Officer. The effectiveness of the Chairman was confirmed and feedback on the appraisal was given to the Chairman.

## Relationship with shareholders

The Company places great importance on communication with shareholders and aims to keep shareholders informed by regular communication. Directors meet regularly with the Company's institutional investors, analysts and financial press. The Company's website is kept up to date with investor relations material, including annual and interim reports, and these are also distributed to anyone expressing an interest in the Company. The channel of communication between the Board and shareholders is open and active. Executive Directors meet with shareholders and analysts after the annual and half-yearly results are announced. David Pusinelli, as Senior Independent Director, contacts the institutional shareholders to arrange a meeting or confirm that the shareholders have no matters to raise. The Company welcomes all shareholders to its AGM, with the opportunity to ask questions formally at the meeting or more informally with all members of the Board afterwards. The Board is provided with regular feedback following meetings with shareholders, which assists in the Directors developing an understanding of the views of the Company's shareholders. It is the Company's policy to announce at the AGM the number of proxy votes cast on resolutions.

## Regulation

As at 31 March 2017, there were three companies within the Group regulated by the FCA.

**Sir David Howard**  
**Chairman**

13 June 2017

# Audit Committee report



**David Pusinelli**

Chairman of the Audit Committee

The Committee is responsible for reviewing the Group's Annual report and accounts and other statements regarding financial performance; oversight of the internal audit function; and the relationship with the external auditor.

The Committee met on five occasions during the year. Details of attendance of these meetings is shown below.

	Number of meetings	Meetings attended
David Pusinelli	5	4
Andrew Didham	5	5
Bridget Guerin	5	5

## Role and responsibilities

The Committee's responsibilities fall largely into three areas:

1. To monitor the integrity of the Group's financial reporting and content of narrative reporting in all published accounts and public statements regarding the Group's financial performance
2. To review the adequacy and effectiveness of the Group's risk management framework and internal control systems in conjunction with the Risk Committee. This includes oversight of the internal audit function
3. To own the relationship with the Group's external auditor, including monitoring of their performance and approval of fees.

The role and responsibilities of the Committee are set out in terms of reference which were reviewed as part of the governance review and approved by the Board in February 2017. For more information and the Committee's terms of reference please visit the Group's website: [www.charles-stanley.co.uk](http://www.charles-stanley.co.uk)

## Membership and meetings

All members of the Committee are independent Non-executive Directors, the majority of whom have recent and relevant financial experience.

The Chairman, Chief Executive Officer, Chief Financial Officer, the internal audit partner and the external audit partner attend most meetings by invitation. The Chief Risk Officer, who oversees the Compliance and Risk departments, also attends when required and under the Committee's new terms will be invited to attend all meetings.

## Activities of the Audit Committee during the year

The Committee has established an annual cycle of work to ensure all responsibilities are met over a calendar year. The agenda items covered in the Committee's meetings include standing items, plus additional agenda items including, for example, all reports issued by the external and internal auditors since the previous meeting of the Committee.



The work we have undertaken within the Committee during the last year principally fell into three main areas:

### 1. Accounting, tax and financial reporting

- Reviewed the 2017 interim and annual financial statements and recommended their approval by the Board, together with supporting documents and dividend payments
- Considered all significant financial reporting judgements in respect of those financial statements (see below for further detail), and reviewed the related principal disclosures
- Considered the appropriateness of preparing the 2017 interim and annual financial statements on a going concern basis.

### 2. Internal controls

- Reviewed and agreed the scope of the risk-based audit plan as proposed by internal audit
- Considered reports from the internal auditor and its assessment of relevant mitigating controls
- Monitored progress in resolving audit issues raised in audit reports
- Reviewed the resources of the internal audit function and agreed the costs
- Reviewed policies relevant to the Committee responsibilities including whistleblowing.

### 3. External audit

- Considered and approved the audit approach and scope of the audit work
- Reviewed reports on audit findings
- Reviewed and approved the policy on the independence of the external auditor
- Considered the independence of the auditor, with particular focus on the nature of non-audit work as well as the mix of audit and non-audit fees
- Considered the recommendations of the UK Corporate Governance Code regarding external audit
- Considered letters of representation given to the external auditor by Management
- Considered the effectiveness of the external audit.

### Internal audit

The provision of internal audit activities has been outsourced to Grant Thornton. Grant Thornton has a deep pool of resources with substantial experience and qualifications in the activity of internal audit within the financial services sector. This means that they are able to bring in specialists relevant to the areas being reviewed and also that they possess up-to-date experience of industry best practice which acts as a useful benchmark for the Group. The internal audit function reports directly to the Chairman of the Audit Committee.

The audit plan for the upcoming year is approved in advance by the Committee on an annual basis. A rolling three-year plan is maintained to ensure all critical areas of the business are covered over this period. We then overlay a risk assessment to determine the prioritisation of the internal audit plan for the coming year.

The annual budget for internal audit activities is agreed between the Chairman of the Committee and the Chief Financial Officer, having regard to the planned scope of work of the internal audit function during the period. The cost of any ad hoc or additional work required over the course of the year is also reviewed and agreed by the Committee and the Chief Financial Officer as it arises.

The Committee reviews all internal audit reports in order to assess the effectiveness of mitigating controls and proposed actions by management to address any issues found. The Committee ensures that all management actions arising are tracked to completion on a timely basis. Exceptionally, operational and line management may be required to attend the Committee to report on progress.

During this financial year a total of 19 reviews were undertaken by internal audit and reviewed by the Committee. Internal audit fees incurred for this work amounted to £352,000 (2016: £324,000).

### External auditor

#### Performance and effectiveness of our external auditor

During the year we reviewed the effectiveness of KPMG, the Group's external auditor. Perception remained high of both performance and effectiveness of the external audit services received. Matters pertaining to the Client Assets Sourcebook (CASS) were the only area of contention; differing views of regulatory interpretation have since been resolved.

### Non-audit services

We have reviewed the independence and the nature of non-audit services supplied by KPMG and non-audit fee levels relative to the audit fee. The Committee's prior approval is required where the fee for an individual non-audit service is expected to exceed £50,000 (excluding VAT). Fees for non-audit services paid to the auditors should not, in aggregate, exceed 70% or more of the average audit fees paid to the audit firm in the last three consecutive years without the Committee's prior written approval.

It is recognised that, given their knowledge of the business, there are often advantages in using KPMG to provide certain non-audit services. Fees other than for audit or assurance payable to the auditors during the year ended 31 March 2017 were £50,000 (2016: £80,000).

We have reviewed the safeguards to independence that have been put in place by KPMG in undertaking the non-audit engagements throughout the year and are satisfied that these are appropriate. The safeguards and terms of engagement were reviewed and approved by us prior to KPMG commencing their work.

We agreed the external audit fees and reviewed the audit engagement letter. We also had discussions with the external auditor with no Management present to provide an opportunity for any concerns to be aired.

### Audit tender

The UK Corporate Governance Code recommends that audits should be subject to tender at least once every ten years. KPMG was appointed as the Group's auditor for the 2011 year-end following a competitive tender process. The Committee intends to conduct an audit tender process again before the tenth anniversary of their appointment.

### Significant accounting issues considered by the Audit Committee

Following discussions with both Management and KPMG, the Committee has determined that the following areas form the key areas of judgement in the preparation of the 2017 consolidated financial statements:

- Impairment of goodwill
- Impairment of other intangible and non-financial assets
- Available-for-sale financial assets
- Corporate transactions
- Pension scheme deficit
- Assets held for sale and post balance sheet events.

### Impairment of goodwill

Goodwill has arisen in prior years principally from the acquisition of subsidiaries and typically represents the difference between the total cost of acquisition and the fair values of the assets of the acquired business.

Goodwill is shown at a value of £14.1 million (31 March 2016: £16.0 million) on the balance sheet and is detailed in note 14.

We have considered the review of goodwill which is performed by Management at each reporting date or earlier if an erosion of goodwill is suspected. The review requires that an impairment charge is recognised if the recoverable amount is less than its carrying value. The approach adopted is first to calculate fair value less costs to sell, and to consider value in use only if the carrying value fails this first test. The majority of the goodwill, £8.8 million (31 March 2016: £10.7 million), relates to the businesses acquired. Impairment charges in the year related to the departure in summer 2016 of the Southampton investment management team (£0.7m). In addition, goodwill of £1.3 million in relation to EBS Management PLC was transferred to held for sale assets.

Charles Stanley Direct represents £5.2 million (31 March 2016: £5.2 million) of the total goodwill balance. This business comprises our online execution-only platform and the direct execution-only service, Charles Stanley Investment Choices Limited, together considered a cash generating unit (CGU).

Management assessed the carrying value of goodwill attributable to Charles Stanley Direct by reference to recent market transactions involving similar businesses. This valuation approach continues to support the carrying value of goodwill and consequently, while still regarding it as an area of judgement, the Committee concludes that this CGU is not impaired.

### Impairment of other intangible and non-financial assets

The Committee considers that client lists provide the principal area for review for impairment. These were valued at £4.7 million as at 31 March 2017 (31 March 2016: £6.3 million). The hiring of individual or teams of senior investment managers requires a value to be attributed to the client lists that they bring to the Group. These intangible assets are amortised over their useful life, generally a period of ten years, which the Committee considers appropriate.

The Committee has looked for evidence of impairment arising from the loss of any senior investment managers during the year that may indicate the risk of outflow of clients and associated Funds under Management. The Committee has also reviewed analysis of the underlying rate of loss of clients to look for any other cause of possible outflows. During the year, the closure of client accounts stayed low and the main cause of lost clients remained death which the Committee recognises tends to claim 3% to 4% of the client base each year. The Committee has not found reason for Management to reflect any impairment in the carrying value of these intangible assets.

#### **Available-for-sale financial assets**

Management has appraised its investment in Euroclear PLC by reference to a recent tender process from Euroclear PLC's share buyback scheme, in which the Group participated and was successful in redeeming around 60% of its holding post the balance sheet date. The Committee has noted the results of the valuation exercise and concludes that its carrying value is appropriate.

During the year, the Group converted in full the loan to Runpath Group Limited (previously known as Masterlist Limited) into 119,154 ordinary shares and sold 25% of its enlarged equity holding. The value of the loan had previously been written down by 50% and that discount was applied to the June 2016 sale price for the remaining shares held. This Committee considers that this valuation approach is appropriate.

#### **Corporate transactions**

On 1 April 2016, the Group sold its pensions consultancy business, CSFS, for £1.5 million in cash and deferred consideration in the form of loan notes totalling £0.5 million. Consequent to the default by CSFS of its loan repayment obligations, an impairment charge of £0.5 million, representing the full carrying value of the capital and interest due, has been recognised in the Income Statement in 2017. Agreement in principle has been reached to reschedule the loan repayment and a review will be undertaken at each future reporting date to assess the recoverability of this loan.

#### **Assets held for sale and post balance sheet events**

On 11 April 2017, the Group announced that it had exchanged contracts for the sale of EBS to Embark Group Limited for up to £4.0m. As the transaction was completed on 31 May 2017, post the balance sheet date, the Committee considers it appropriate for the assets and liabilities attributable to EBS to be presented as held for sale in the Consolidated statement of financial position.

#### **Pension scheme deficit**

The Group's defined benefit scheme was closed to future service accruals as at 31 March 2016. The latest full triennial valuation was carried out in May 2014. Based on the latest International Accounting Standard 19 (IAS 19) actuarial valuation, the pension fund shows a deficit position of £10.5 million at 31 March 2017 (31 March 2016: £10.1 million) and this is further detailed in note 11. The next full triennial actuarial valuation as at 13 May 2017 is currently being undertaken. This is due to be completed in early 2018 and is expected to be reflected in the financial statements for the year ending 31 March 2018.

The Committee has reviewed the actuarial valuation report and noted the conclusions of KPMG on the nature of the assumptions used by the actuaries and is in agreement with the year-end deficit position.

#### **Approval**

This report in its entirety has been approved by the Board of Directors, following recommendation by the Committee, and signed on its behalf by:

**David Pusinelli**

**Audit Committee Chairman**

13 June 2017

# Nomination Committee report



**Sir David Howard**

Chairman of the Nomination Committee

The Committee is responsible for reviewing the composition of the Board and Board committees to ensure they are properly constituted and balanced in terms of skills, experience and diversity. In particular, the Committee manages the search process for new Directors, recommends suitable candidates to the Board and considers succession planning more widely.

The Nomination Committee met twice during the year. Details of attendance of these meetings is shown below.

	Number of meetings	Meetings attended
Sir David Howard	2	2
Andrew Didham	2	2
Bridget Guerin	2	2
David Pusinelli	2	2

## Role and responsibilities

The Committee is responsible for reviewing the composition of the Board and Board committees to ensure they are properly constituted and balanced in terms of skills, experience and diversity. The Committee (as and when required) manages the search process for new Directors and recommends suitable candidates to the Board. It also considers succession planning for both directors and senior executives.

For more information and the Committee's terms of reference please visit the Company's website: [www.charles-stanley.co.uk](http://www.charles-stanley.co.uk)

## Members and meetings

The Committee consists of Sir David Howard, Chairman of the Board, and three independent Non-executive Directors: Bridget Guerin who is also Chair of the Group's Remuneration Committee, David Pusinelli who is Chairman of the Group's Audit Committee and Andrew Didham who chairs the Group's Risk Committee, and CSC's Board and Nomination Committee. In addition, the Chief Executive Officer attends meetings by invitation and the Group Company Secretary acts as secretary to the Committee.

## Main activities during the year

As referenced in the introduction to this Governance section, the Group has undertaken a governance review during the year. All the Committee's members have been involved with the project. Matters, some of which are ongoing, particularly pertinent to this Committee's terms of reference include:

- Assessment of the balance of skills and experience required of both the CSG and CSC Boards
- Development of role profiles for Directors
- Selecting new Non-executive Directors candidates
- A refresh of the Directors' induction programme
- Establishment of a Directors' development programme.

Those matters were dealt with outside of formal Committee meetings. Additionally, during the year the Committee also:

- Approved the job description for the role of Non-executive Chairman
- Reviewed its terms of reference
- Discussed succession planning for Executive Directors and other senior executives
- Considered and recommended to the Board the re-election of directors retiring at the 2017 AGM
- Considered and recommended various changes to the boards of the subsidiary companies
- Considered the need for and started to process towards appointment of additional NEDs.

The Nomination Committee supports the Group's aim to have the appropriate level of diversity in the boardroom in order to provide a broader perspective to decision-making, while remaining committed to ensuring appointments are ultimately made on merit. The Board comprised 14% female membership at 31 March 2017. Further details about diversity are included in the Corporate social responsibility report on page 40.

Also, as referenced in the introduction to this Governance section, CSC has formed a Nomination Committee. The work of the CSC Nomination Committee is not expected to impact materially the work of this Committee.

**Sir David Howard**

**Nomination Committee Chairman**

13 June 2017



# Directors' remuneration report



**Bridget Guerin**

Chair of the Remuneration Committee

## Dear Shareholder

I am pleased to present the Directors' remuneration report for the year ended 31 March 2017. This report complies with the UK Directors' Remuneration Reporting Regulations 2013 and covers the Group's approach towards remuneration, the Remuneration Committee's principal activities during the year and specific information relating to the treatment of Directors. Further detailed information, as required by the Regulations, is set out immediately following this annual statement.

The attendance of the Remuneration Committee was as follows:

	Number of meetings	Meetings attended
Bridget Guerin	5	5
Andrew Didham	5	5
David Pusinelli	5	4

## Remuneration policy and principles

The Remuneration Committee aims to ensure that our Executive Directors' remuneration is aligned with the interests of shareholders, with a significant proportion of their remuneration being performance-related. Executive Directors' reward comprises a cash-based salary with benefits including pension, an annual bonus scheme and a share-based Performance Share Plan (PSP). Our Remuneration Policy, as approved by shareholders at the AGM on 31 July 2015, directly links the pay of our Executive Directors to the achievement of stretching financial and operating performance targets. Our remuneration policy aims to:

- Attract, retain and motivate highly capable Directors and Senior Management, with the skills and experience to manage the business
- Maintain appropriate levels of fixed pay, with a ratio of variable to fixed pay that is relevant and competitive
- Foster and support conduct and behaviours which are in line with our client-centric and regulatory-compliant culture
- Ensure that remuneration does not encourage inappropriate risk taking that would sit outside the Board's risk appetite
- Set Directors' targets, linked to reward, which demonstrate a clear correlation to the business strategy via the performance metrics for the annual bonus scheme and the long-term incentive plan
- Achieve consistency with the remuneration philosophy applied to the Group's employees as a whole.

## Decisions made during the year

The Remuneration Committee has carried out significant work this year to assist the Executive Committee to standardise and amend the compensation of the investment managers, with the intention of ensuring that their remuneration promotes good customer outcomes and is in line with shareholders' interests. The Remuneration Committee has had an oversight role during the process of consultation and implementation. I would like to thank a number of major shareholders and their representatives, whose views were sought during the period of negotiations and whose observations have assisted us in our deliberations and in securing a satisfactory conclusion.



The Remuneration Committee undertook a review of Executive Directors' salaries during the year, noting that no Executive Director had received an increase in their base pay since July 2012 or since being appointed to the Board, despite some taking on greater responsibilities. Market-related benchmark data was considered, as was the size and complexity of the business in relation to peer organisations. The current business performance and the achievement of both financial and non-financial objectives (including adherence to the principles of treating customers fairly, conduct risk, compliance and regulatory rules) were taken into account when determining the revised salaries.

Increases were approved for all Directors and these took effect from 1 April 2017. The resulting salaries are Paul Abberley £350,000, Ben Money-Coutts £250,000 and Gary Teper £250,000, representing increases of 16.7%, 11.1% and 8.7% respectively. When determining the increases the Committee took into account that none of the Executives had received an increase since being appointed to the Board. These increases therefore represent, on an annualised basis, increases of between 7% and 2%.

While these increases are significant, both in absolute terms and when compared to the general workforce increase of 2.3%, the Committee determined that the increases were appropriate in light of the above factors. When approving the revised salaries the Committee was conscious of the fact that bonus and PSP awards are not directly linked to salary and therefore there is no multiplier effect on the overall quantum of remuneration. The salaries will next be reviewed in October 2017.

### Remuneration outcomes

You will have read elsewhere in the Annual report that there has been a steady improvement in overall performance over the year as the Group returned to profit. The size of the annual bonus pool is based on a percentage of adjusted profit which resulted in a total bonus pool of £455,000 to be allocated to the Executive Directors.

Despite the improvement in performance there will be no vesting from the January 2015 PSP award, which is based on performance to 31 March 2017, as the performance levels are below the respective earnings per share (EPS) and margin targets.

### Notable events

- As announced on 24 November 2016, Mike Lilwall decided to step down from the Board, after many years as an Executive Director, to enable him to focus on private client investment management. We are grateful to him for his work over the years and continued support and dedication.
- Although, as notified in the 2016 Annual report and accounts, Anthony Scott stepped down from the Board on 18 April 2016, he was a Director at the start of this financial year and hence he has been included and accounted for in this Report.

### Activity in the coming year

The Remuneration Committee has been involved in the governance review that commenced in 2016, with external support from PwC. As a consequence of the separation of the PLC and regulated Boards, a new position of Chairman of Charles Stanley & Co. Limited has been created. Andrew Didham has accepted the role, as well as the position of Chairman of the supporting Nomination Committee, which he will undertake in addition to his existing responsibilities as a Non-executive Director. His remuneration has been adjusted to reflect these increased responsibilities. These changes took effect from March 2017.

The regulatory environment remains demanding, with the SMCR and MiFID II due to occur during the coming year, and we regularly monitor our policy to ensure it remains compliant, continues to support the interests of our shareholders and to reward our Executive Directors appropriately.

I trust that the above provides you with a summary of the main events in the past 12 months. Further detailed information is provided on pages 64 to 77 of the Remuneration policy report. If you have any questions or comments I would be delighted to hear from you or to discuss matters at the AGM on 27 July 2017.

**Bridget Guerin**

**Remuneration Committee Chair**

13 June 2017

We have presented this report to reflect the reporting requirements on remuneration matters for companies, particularly Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Report also describes how the Board has complied with the provisions set out in the UK Corporate Governance Code relating to remuneration matters.

At our 2017 AGM, on 27 July, we will be holding a vote on the Implementation report within this report. The auditors have reported on certain parts of this report and stated whether, in their opinion, those parts of the report have been properly prepared in accordance with the Companies Act 2006. Those sections of the report which have been subject to audit are clearly indicated.

### Directors' remuneration policy

#### Key features of the policy

The Directors' remuneration policy as summarised in this section of the report took effect for all payments made to Directors from the date of the 2015 AGM. For information and ease of reference the remuneration policy for Executive Directors is summarised in the table on pages 66 to 69, along with the policy regarding Non-executive Directors' fees. Please note that the section 'Implementation of policy' has been written to reflect current salaries and other relevant changes.

#### How the Committee takes account of wider pay issues when setting the policy

When setting Executive Director remuneration, the Committee takes into account Group-wide pay and employment conditions, along with market and commercial factors (although, reflecting prevailing commercial practice, the Committee does not consult with employees in preparing the policy or its implementation). For example, when determining any base salary increases for Executive Directors, the Committee reviews the average Group-wide increase, as well as remuneration within similar organisations (with specific note taken of businesses of similar size or complexity), using benchmark data provided by professional remuneration experts. The annual bonus opportunity of the Executive Directors is similar in a number of respects to the 'discretionary' bonus opportunity of a significant number of other Group staff, in that both personal performance and overall Group profitability help determine amounts paid out. Although there are conduct-related sanctions within the approved investment managers' scheme, and limited share deferrals as part of the variable reward available to certain successful financial planners, only the Executive Directors' bonuses are subject to individual caps, mandatory share deferral and clawback/malus. Executive Directors are eligible to participate in the full range of Group benefits offered to employees.

In addition, they are eligible for certain remuneration to which other employees are not eligible. For example, Executive Directors may receive a salary supplement in lieu of pension. Also, Executive Directors are eligible to participate in the PSP, participation in which is not intended to be extended widely. However, all employees are eligible to participate in the all-employee share schemes described in the table on pages 68 and 69.

**How shareholders' views are taken into account when setting the policy**

Each year the Committee will take into account the approval levels of remuneration-related resolutions at the previous AGM when reviewing the current policy. More generally, the Committee will also seek to build an active and productive dialogue with shareholders on developments in the remuneration aspects of corporate governance and any changes to the Group's executive pay arrangements. In addition, in line with the Investment Association's Guidelines on responsible investment disclosure, the Committee is comfortable that the incentive structure for Executive Directors does not raise any environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

**The Policy and the FCA Remuneration Code**

The Committee regularly reviews its remuneration policies to ensure compliance with the principles of the Remuneration Code of the UK financial services regulator, the FCA, as applicable to Charles Stanley. The remuneration policy is designed to be consistent with conservative management of risk, to encourage appropriate conduct and to support the sustained long-term performance of the Group.

The Committee believes that the remuneration policies neither encourage, nor reward, inappropriate risk-taking.

Element and purpose	Policy and operation	Opportunity
<p><b>Base salary</b></p> <p>This is the core element of pay and reflects the individual's role and position within the Group, with some adjustment to reflect their capability and contribution.</p>	<p>Base salaries are considered with account taken of levels paid by companies of similar size, complexity and challenge. However, the Committee does not strictly follow benchmark data but instead uses it as a reference point in considering, in its judgement, the appropriate level having regard to other relevant factors including corporate and individual performance and any changes in an individual's role and responsibilities.</p> <p>Base salary is paid monthly in cash.</p>	<p>Base salary levels will be formally reviewed at such time as the Committee considers appropriate. If any increases are made, except in exceptional circumstances, it is expected that they will be in line with general workforce increases (save where a higher increase is necessary to reflect a significant change in role and/or responsibilities). Any base salary increases will normally take effect at the time of general workforce amendments, this is typically from 1 October.</p>
<p><b>Benefits</b></p> <p>To provide other benefits valued by recipient.</p>	<p>Provide market competitive benefits in kind.</p>	<p>Details of the current benefits provided can be found to the right. The Committee reserves discretion to introduce new benefits where it concludes that it is in the interests of the Group to do so, having regard to the particular circumstances and to market practice. The Committee will monitor overall benefit costs and will ensure that they do not increase by more than the Committee considers to be appropriate in all circumstances.</p>
<p><b>Pension</b></p> <p>To aid retention and remain competitive within the market place.</p>	<p>Provide a competitive level of post-retirement benefits.</p> <p>The Executive Directors participate in money purchase arrangements. Contributions are taken as a salary supplement by all Directors.</p>	<p>Contributions to the pension arrangements may be reviewed when considered appropriate by the Committee.</p>
<p><b>Annual bonus</b></p> <p>To incentivise Executive Directors to deliver against annual performance targets.</p>	<p>Annual bonus levels and the appropriateness of measures are reviewed annually to ensure they continue to support the Group's strategic goals.</p> <p>Bonus outcomes are paid in one tranche (less any deferred share award) following the year-end.</p> <p>Any bonus earned in excess of 50% of salary under the main bonus plan is to be deferred into shares for a period of three years.</p> <p>During the period until vesting of deferred share awards, the numbers of shares awarded are increased by the value of dividends notionally payable in respect of the vesting shares.</p> <p>Malus/clawback provisions apply to amounts deferred which can be reduced in later years in exceptional circumstances such as:</p> <ul style="list-style-type: none"> <li>(i) material misstatement of accounts</li> <li>(ii) action that causes material reputational damage to the Group</li> <li>(iii) in the event of material regulatory censure.</li> </ul>	<p>To reflect the Group's strategic objective of driving growth and improved quality of profits, the core annual bonus plan is structured as a 'profit pool' under which an agreed percentage of adjusted profit before tax (PBT) can be distributed to the Executive Directors, with a portion of this distribution based on performance against individual targets. There is a cap of 6% of adjusted PBT that can be allocated to the pool. In addition, no Executive Director may receive a bonus in excess of 100% of their salary under this plan.</p> <p>Due to the profit pool nature of the bonus, there is no prescribed amount of bonus that is payable for any particular level of performance.</p> <p>Adjusted PBT is defined as PBT adding back bonus pool accrual, the Financial Services Compensation Scheme (FSCS) or similar levy and, in exceptional circumstances, any other items the Committee consider appropriate to reflect the underlying financial performance of the Group.</p>

Performance measures	Implementation of policy						
n/a	<p>No increases to base salaries were made in 2016. However, following a formal review, uplifts were approved for all Executive Directors, to take effect from 1 April 2017.</p> <p>2017 base salaries for the Executive Directors are as follows:</p> <table><tr><th>Paul Abberley</th><th>Ben Money-Coutts</th><th>Gary Teper</th></tr><tr><td>£350,000</td><td>£250,000</td><td>£250,000</td></tr></table>	Paul Abberley	Ben Money-Coutts	Gary Teper	£350,000	£250,000	£250,000
Paul Abberley	Ben Money-Coutts	Gary Teper					
£350,000	£250,000	£250,000					
n/a	<p>The benefits received by the Executive Directors comprise a car allowance, private medical cover, private health insurance and Death in Service benefits and a mobile and/or iPad. No changes were made to this element of remuneration in 2017 and none are proposed for 2018.</p>						
n/a	<p>No changes were made to pension arrangements in 2017 and none are anticipated for 2018.</p> <p>The Executive Directors receive the following payments:</p> <p>Paul Abberley – 20% of base salary</p> <p>Ben Money-Coutts – 20% of base salary</p> <p>Gary Teper – 20% of base salary</p>						
<p>The performance measures applied may be financial or non-financial and corporate, divisional or individual.</p> <p>The annual bonus remains a discretionary arrangement and the Committee reserves discretion to adjust the outturn should it consider that to be appropriate (albeit within the limits set out in this policy table).</p>	<p><b>2017 Annual Bonus</b></p> <p>When reviewing the performance of the 2017 financial year, the Remuneration Committee determined that the bonus pool under this plan, for distribution to the Executive Directors, would be approximately 5% of adjusted PBT.</p> <p>50% of this bonus pool was allocated across all the Executive Directors on an equal basis, which in the case of Mike Lilwall was pro-rata to the time that he served as an Executive Director. The remaining 50% of the bonus pool was allocated to each Executive Director based upon their performance against pre-set individual performance objectives.</p> <p>Paul Abberley was set objectives which included delivering the financial plan, ensuring that the Company was managed in a risk-aware manner, ensuring that all stakeholder interests and outcomes were appropriately managed and providing a Company voice to shareholders and clients.</p> <p>Ben Money-Coutts was set objectives which included managing the Finance function with due regard for conduct risk and risk management and for ensuring that all internal audit points were addressed. He was also responsible for encouraging and supporting the adoption of the Company's budget and for delivering the efficient financial operation of the Investment Management Services division's new remuneration arrangements.</p> <p>Gary Teper was set a key objective to deliver new contracts and remuneration arrangements for the investment managers. He was also mandated to set up effective management structures for the Investment Management Services division and for the HR and Legal teams. He also had objectives to ensure that the business areas for which he was responsible were managed with due regard for conduct risk and with effective risk management infrastructure.</p> <p>Each of the Executive Directors were judged to have achieved their key objectives.</p> <p>The Bonus payments are set out in the table on page 78.</p> <p><b>2018 Annual Bonus</b></p> <p>The bonus will be operated in a similar manner to 2017 (that is a profit pool will be created worth up to 6% of adjusted profit, which will be distributed based, in part, on performance against individual objectives). Given the nature of the individual objectives, they are considered commercially sensitive and are accordingly not disclosed in this report (although they relate to their contributions to delivering the targeted further improvement in profitability and the delivery of the detailed plans built to guide the implementation of the corporate strategy). Further information regarding these targets will be included in next year's report.</p>						

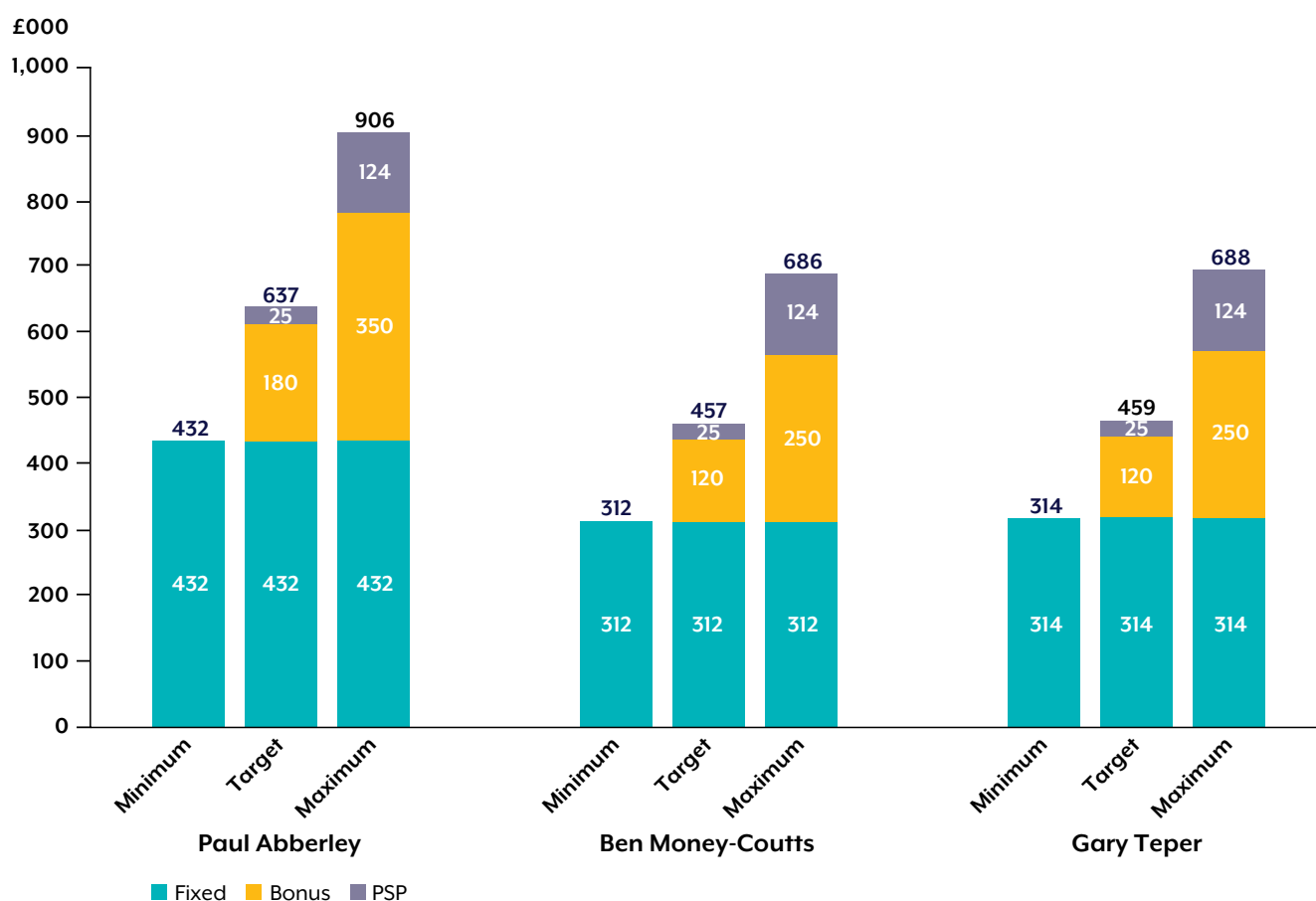
Element and purpose	Policy and operation	Opportunity
<p><b>Long-term incentives</b></p> <p>To incentivise delivery of sustained performance over the long term, the Company operates the Charles Stanley Performance Share Plan (PSP).</p>	<p>Awards under the PSP may be in the form of nil-cost options, conditional awards (rights to receive shares for nil-cost) or cash-based 'phantom' awards.</p> <p>During the period until vesting of awards, the numbers of shares awarded are increased by the value of dividends notionally payable in respect of the vesting shares.</p> <p>Awards previously granted but not yet vested, and shares received following vesting, can be reduced/ reclaimed in exceptional circumstances such as:</p> <ul style="list-style-type: none"> <li>(i) material misstatement of accounts</li> <li>(ii) actions that cause material reputational damage to the Group</li> <li>(iii) in the event of material regulatory censure.</li> </ul>	<p>The formal limit under the PSP is 100% of salary (and 200% in exceptional cases).</p> <p>The Committee expressly reserves discretion to make such awards as it considers appropriate within these limits. Actual grant levels may be determined by reference to individual performance in the prior year, with vesting then based upon performance against three-year targets.</p> <p>At a threshold level of performance against these three-year targets, 20% of an award is capable of vesting.</p>
<p><b>Shareholding guidelines</b></p> <p>To encourage share ownership by the Executive Directors and ensure their interests are aligned with investors.</p>	<p>Executive Directors are required to retain 50% of shares (net of tax), which vest under the PSP or bonus deferral, until such time that they hold a specified value of shares as shown in the Opportunity column. These restrictions do not apply to other Charles Stanley shares that they may own.</p> <p>Once the shareholding guideline has been met, individuals are expected to retain these levels as a minimum. The Committee will review shareholdings annually in this context.</p>	<p>100% of salary for the Executive Directors.</p>
<p><b>All-employee share plans</b></p> <p>To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.</p>	<p>Executive Directors are able to participate in all-employee share plans on the same terms as other Group employees.</p>	<p>Sharesave – individuals may save up to a maximum of £250 (or such amount permitted by the HMRC approved limit) each month for a fixed period of three or five years. At the end of this period, they may use their savings to buy shares in the Company at a discount currently capped at 15% (although the rules permit 20%) of the market price set at the launch of each scheme.</p> <p>Share Incentive Plan – individuals may purchase, out of their pre-tax salary, shares in the Company up to a value of £150 per month (or such amount permitted by the HMRC approved limit). Free shares worth up to £3,000 (or such amount permitted by the HMRC approved limit) can also be granted each year. Also, the rules of the Plan allow matching shares to be granted based on the number of shares purchased (although the Company does not currently operate the free share and matching elements of the Plan).</p>
<p><b>Non-executive Director fees</b></p>	<p>The fees paid to the Non-executive Directors aim to be competitive with other fully listed companies which the Board consider to be of equivalent size and complexity. Fee levels are periodically reviewed by Board. However, the Company does not adopt a quantitative approach to pay positioning and exercises judgement as to what it considers to be reasonable in all the circumstances as regards quantum.</p> <p>Additional fees are paid to Non-executive Directors who chair a Board committee or who have other additional responsibilities (such as being Senior Independent Director).</p> <p>Non-executive Directors do not participate in the annual bonus or share incentive arrangements.</p> <p>Non-executive Directors may also receive benefits within prescribed limits as to value.</p>	<p>Fees are paid monthly in cash. Fee levels for Non-executive Directors are reviewed annually and are only expected to increase in line with market norms and to take account of additional time commitments and responsibilities.</p> <p>The annual limit on benefits is £25,000.</p> <p>The cap on fees payable to Non-executive Directors for their services is £0.45 million per annum. This will accommodate the appointment of additional Non-executive Directors to strengthen the balance of the Board.</p>

Performance measures	Implementation of policy
The Committee will set performance conditions for each annual PSP award which may relate to financial and/or share price performance and which will have the underlying aim of encouraging and rewarding the generation of sustainable returns to shareholders.	<p><b>July 2016 Awards</b></p> <p>Awards were made under the PSP in July 2016 over shares worth up to 80% of salary to Paul Abberley, and between 64% and 69% of salary to Ben Money-Coutts and Gary Teper.</p> <p>50% of each award will vest subject to adjusted EPS targets, with 50% subject to operating margin targets, each measured over a three-year period to 31 March 2019.</p> <p>Further details of the targets that applied to the awards are set out in the Implementation report.</p> <p><b>July 2017 Awards</b></p> <p>The Remuneration Committee has determined that awards be made over 40,000 shares to each of the Executive Directors. Further details of the targets that will apply to the awards are set out in the Implementation report section of this Directors' remuneration report.</p>
n/a	n/a
Consistent with normal practice, these awards are not subject to performance conditions.	n/a
n/a	<p>Sir David Howard receives an annual fee of £125,000 as Non-executive Chairman of Charles Stanley Group PLC. Sir David is Chairman of the Nomination Committee of Charles Stanley Group PLC, for which he receives no additional fees.</p> <p>In 2017, the following fee structure was in place for the other Non-executive Directors:</p> <ul style="list-style-type: none"> <li>• Base fee was £42,500</li> <li>• Additional fee for holding the position of Senior Independent Director was £7,500 per annum</li> <li>• Additional fee for chairing one of the Board committees (Remuneration, Audit and Risk) was £7,500 per annum.</li> </ul> <p>Andrew Didham receives an additional annual fee of £35,000 as independent Non-executive Chairman of Charles Stanley &amp; Co. Limited, which commenced on 1 March 2017.</p> <p>No changes are proposed to the above fee arrangements.</p>

### How the policy shapes actual Executive Directors' pay

Our remuneration policy results in a significant portion of the Executive Directors' pay being dependent on performance. The charts below demonstrate this, showing how their 2018 pay will vary based on different levels of performance (with increases in share price and dividend reinvestment ignored for these purposes):

- 'Minimum performance' – this assumes that performance is such that no annual bonus is warranted (due to no profit being generated in a particular year) and no PSP awards vest (due to the minimum performance threshold not being reached). Therefore, Executive Directors only receive their fixed pay (salary, benefits and pension)
- 'On target performance' – this assumes a 'target' level of performance, resulting in threshold vesting of PSP awards (20% of the proposed 2018 award level). As the annual bonus is based on a profit pool and, therefore, has no prescribed 'on target' opportunity, to reflect the approach adopted previously we have valued the bonus based on the actual award under the plan for the prior year. Fixed pay remains unchanged.
- 'Maximum performance' – this assumes a very strong level of performance, resulting in full vesting of PSP awards at the proposed 2018 level and a maximum bonus payout of 100% of salary. Fixed pay also remains unchanged.





### Discretions retained by the Committee in operating the incentive plans

The Committee will operate the annual bonus plan and PSP according to their respective rules and subject to the limits/ other provisions set out in the policy table above. The Committee retains discretion, consistent with market practice, in a limited number of respects, in relation to the operation and administration of these plans. These discretions include, but are not limited to, the following:

- The selection of participants
- The timing of grant of an award/bonus opportunity
- The size of an award/bonus opportunity (subject to the overall plan limits set out in the policy table)
- The setting of PSP and bonus performance targets and the determination of performance against such targets and resultant vesting/bonus pay-outs
- Discretion required when dealing with a change of control or restructuring of the Group
- Determination of the treatment of leavers based on the rules of the plans and the appropriate treatment chosen (as summarised in the table on page 73)
- Adjustments required in certain circumstances (for example, rights issues, corporate restructuring events and special dividends).

Under the rules of both the PSP and annual bonus plan and reflecting general market practice, the Committee retains the ability to adjust the targets and/or set different measures if events occur (for example, material acquisition, share issue and/or divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially more or less difficult to satisfy. Any use of the above discretions would, where relevant, be explained in the Annual report on remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

### The Directors' service contracts

#### Executive Directors

Paul Abberley, Ben Money-Coutts and Gary Teper have service contracts containing a notice period of six months and a payment in lieu of notice clause limited to base salary only. There are no other special provisions in these contracts relating to compensation for loss of office nor are there any clauses in contracts amending employment terms and conditions on a change of control.

In the event of the employment of an Executive Director being terminated, the Committee will pay due regard to (i) best practice (ii) the circumstances surrounding the termination and (iii) the Executive Director's duty to mitigate his/her loss, while also adhering to the relevant contractual terms.

All Executive Directors are subject to annual re-election. Executive Directors may take on external appointments, subject to prior approval by the Board. The fees from such appointments (where relevant) are retained by the Director concerned.

#### Non-executive Directors

The Non-executive Directors do not have service contracts, but instead have detailed job descriptions covering each aspect of their role (for example, Committee Chairmanships or specific roles or duties) and Letters of Appointment for an initial three-year term, subject to annual re-election by the Company's shareholders. Either party can terminate the Letter of Appointment on giving three months' written notice. There are no special provisions in the Letters of Appointment for compensation in the event of loss of office.

### Legacy arrangements

For the avoidance of doubt, in approving this policy report, authority is given to the Company to honour any commitments entered into with current or former Directors. Details of any payments to former Directors will be set out in the relevant report going forward as required by Regulations.

### Travel and hospitality

While the Remuneration Committee does not consider these form part of benefits in the normal usage of that term, we have been advised that corporate hospitality (whether paid for by the Company or another) and business travel for Directors (and occasionally their families) may technically come within the applicable rules, and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies.

### Our approach to remuneration on recruitment

The Group's recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment and promotion of high-calibre executives to strengthen the management team and secure the skill sets required to deliver our strategic aims.

The following represents guidelines considered reasonable by the Committee in relation to securing an appropriate candidate whose appointment would be in shareholders' best interests:

- In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to look to the general policy for Executive Directors as set out in the policy table on page 66 and structure a package in accordance with that policy
- Base salaries will be set based on the individual's role and experience, with consideration given to internal relativities
- Benefits will be provided in line with those offered to other employees at the similar level. In the case of new Executive Directors, individuals will be given a choice of either participation in a defined contribution pension or a cash allowance in lieu of pension
- Ignoring any special recruitment buy-out arrangements which may prove to be necessary, the annual bonus or long-term incentive arrangements will operate (including the maximum award levels) as detailed in the policy table in relation to any newly appointed Director
- For an internal appointment, any variable pay element or arrangement that exists in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate. For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate and/or make a contribution towards legal fees in connection with agreeing employment terms
- A new Executive Director will not, save in exceptional circumstances, be offered a service contract with a notice period in excess of one year
- Where it is necessary to make a special recruitment-related buy-out award to an external candidate, the Company will not pay more than is, in the view of the Committee, necessary and will in all cases seek, in the first instance, to deliver any such buy-out awards under the terms of the existing incentive pay structure as outlined in the policy table. It may, however, be necessary in some cases to make such special buy-out awards on terms that are more bespoke than the existing incentive plans in order to secure a candidate, which may require reliance upon Listing Rule 9.4.2. All such special buy-out awards will be appropriately disclosed and will take account of all relevant factors. For example, the commercial value of the buy-out award will reflect the commercial value of the amount forfeited from the previous employer, with the performance conditions and the potential timing of vesting also taken into account
- For the avoidance of doubt, the maximum amounts for incentive pay as stated in the policy will not apply to special buy-out awards. The Committee has not placed a maximum limit on any such buy-out awards as it is not considered to be in shareholders' interests to set any expectations for prospective candidates regarding such awards. However, as stated above, the commercial value of the amount forfeited from the previous employer will be reflected in the quantum of such award.

### Our policy on Executive Directors leaving Charles Stanley

In practice, the facts surrounding any termination do not always fit neatly into defined categories for 'good' or 'bad' leavers. Therefore, it is appropriate for the Committee to consider the suitable treatment on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatment which the Committee may choose to apply under the discretions available to it under the terms of any incentive plans. The potential treatments on termination under these plans are summarised below.

Incentives	Good leaver	Bad leaver	Exceptional events
<b>Definitions</b>	If a leaver is deemed to be a 'good leaver', such as leaving through redundancy, serious ill health or death or otherwise at the discretion of the Committee.	If a leaver is deemed to be a 'bad leaver', typically voluntary resignation or leaving for disciplinary reasons.	Such as a change in control.
<b>Annual bonus</b>	Prorated bonus, with any deferred shares vesting.	No awards made, with deferred shares lapsing (unless the Committee determines otherwise).	Prorated bonus, with any deferred shares vesting.
<b>PSP</b>	Will receive a prorated award subject to the application of the performance conditions at the normal measurement date or on cessation (as determined by the Committee).  Committee discretion to disapply prorating. Awards can be clawed back for a breach of post-cessation obligations.	All awards will normally lapse.	Will receive a prorated award subject to the application of the performance conditions at the date of the event. Committee discretion to disapply prorating.

The Group has power to enter into settlement agreements with executives and to pay compensation to settle potential legal claims. In addition, and consistent with market practice on termination of an Executive Director's employment, the Group may pay a contribution towards the individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees would be disclosed as part of the detail of termination arrangements. Should it become necessary to make additional payments in respect of such professional fees that were not ascertained at the time of reporting, the Company may do so up to a level of a further £10,000. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

## Implementation report – unaudited information

### The Remuneration Committee's main responsibilities during the year

The Committee is a Joint Committee reporting to the Boards of both Charles Stanley Group PLC and Charles Stanley & Co. Limited. The Committee comprises three independent Non-executive Directors and is governed by formal terms of reference, which are reviewed and agreed annually by the Board. The terms of reference of the Committee are available on the Group's website. During 2017 the Committee's main responsibilities were to:

- Monitor the remuneration arrangements of the Executive Directors
- Monitor Executive Directors' performance and to recommend PSP awards based on this performance to the Board
- Determine and recommend to the Board the remuneration policy and the approval of all elements of pay for the Chairman of the Board and the other Executive Directors
- Be responsible for the Charles Stanley Group remuneration policy as documented and proposed by the Executive Committee
- Prepare this Directors' remuneration report.

The Committee meets formally twice a year but more frequently if required. During 2017, five Committee meetings were held and details on attendance at meetings are set out in the Corporate governance report on page 53. None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to both Boards. No Director plays a part in any discussion about his or her own specific remuneration.

### How the Remuneration Committee sought advice

The Committee received independent remuneration advice during the year from its appointed advisers, FIT Remuneration Consultants LLP (FIT). FIT is a member of the Remuneration Consultants Group (the professional body for such consultants) and adheres to its code of conduct. FIT provided no other services to the Group and accordingly the Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of 2017 were £19,750 (2016: £13,200). FIT's fees were charged on the basis of the firm's standard terms of business for advice provided. The Committee also considered data provided by recognised benchmarking specialists, Compeer and McLagan; and consulted with PwC as part of the Group's governance review and with Sir David Howard and Paul Abberley (save in respect of matters relating directly to their own remuneration) and the Group's HR function.

### How remuneration compares to other payments

The table below shows the total pay for all of Charles Stanley's employees compared to other key distributions made by the Company:

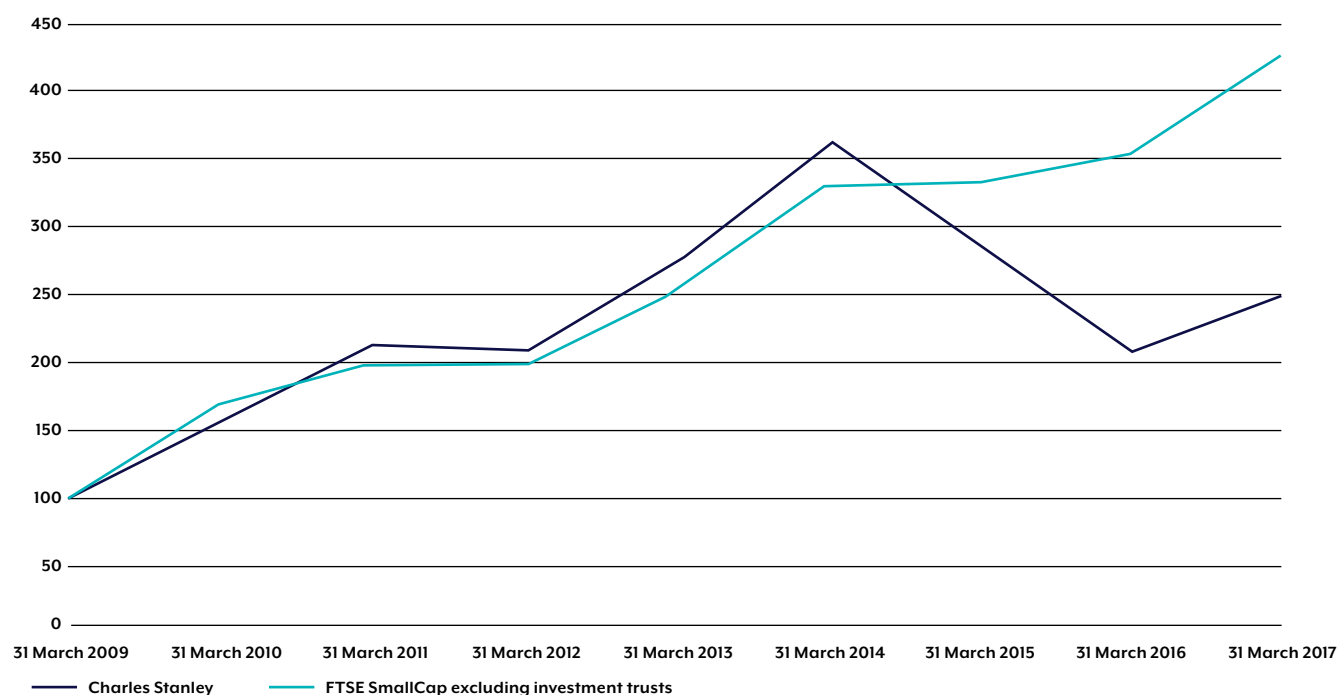
	2017	2016	Change
Employee costs	£52,385,276	£55,267,367	(5.2%)
Dividends <sup>1</sup>	£2,534,170	£1,754,305	44.5%

<sup>1</sup>The dividend figures included in the above table are those paid during the respective financial years.

### Review of past performance

The graph below shows the value at 31 March 2017, on a total shareholder return basis, of £100 invested in the Company on 31 March 2009 compared with the value of £100 invested in the FTSE SmallCap Index (excluding investment trusts). This Index is considered to be an appropriate comparator for this purpose as it is a broad equity index of which the Company is a constituent.

#### Total shareholder return (%)



Note: Rebased to 100 as at 31 March 2009.

The table below shows the total remuneration figure for Sir David Howard and Paul Abberley over the same eight-year period. The total remuneration figure includes the annual bonus paid in each of these years. The new Regulations require this table to state the proportion of annual bonus paid and long-term incentive vesting in each relevant year as a percentage of the maximum available. However, the Group did not operate with a maximum bonus opportunity until 2015.

Consequently, we have simply included the total remuneration in each of the relevant years, while also setting out details of the bonus each actually received based on performance in these years.

Financial year	2017	2016	2015	2014	2013	2012	2011	2010
Sir David Howard single figure of total remuneration	–	–	£290,173	£413,639	£430,878	£610,409	£448,950	£530,923
Annual bonus paid	–	–	£nil	£72,800	£89,200	£85,400	£85,400	£78,400
Paul Abberley single figure of total remuneration	£552,000	£372,094	£165,000	–	–	–	–	–
Annual bonus paid	£180,000	£nil	£nil	–	–	–	–	–
PSP January 2015	0%	–	–	–	–	–	–	–

These amounts are calculated using the same methodology as that used to produce the single figure table. This includes a value for pensions that is based on the increase in the Director's accrued pension in the year, which is a significant cause of the variance across the six-year period for Sir David Howard.

#### How any change in pay of the Chief Executive Officer between 2016 and 2017 compared to the wider workforce

In accordance with the new regulations, we must disclose the percentage change in the certain elements of the Chief Executive Officer's pay (namely salary, taxable benefits and annual bonus) compared to the average percentage change in the same pay elements for all employees.

This information is set out below:

	Change in salary	Change in benefits	Change in annual bonus
Paul Abberley	0%	0%	100% <sup>1</sup>
All-employee average	2.6%	3%	152% <sup>2</sup>

<sup>1</sup>Paul Abberley, the CEO, did not receive a bonus in the prior year. He has been awarded a bonus of £180,000 in respect of the 2017 financial year.

<sup>2</sup>Percentage change in respect of the Group's discretionary bonus pool.

### How our shareholders voted

Of the 81.23% of the issued share capital votes cast to approve the Implementation report within the Directors' remuneration report for the year ended 31 March 2016 at the 2016 AGM held on 29 July 2016:

	For		Against		Total votes	Votes withheld
	No. of Shares	% of total	No. of Shares	% of total		
Approval of the Implementation section of the Directors' remuneration report	41,173,279	99.92	31,633	0.08	41,204,912	16,004

Vote to approve Directors' remuneration policy at the 2015 AGM held on 31 July 2015:

	For		Against		Total votes	Votes withheld
	No. of Shares	% of total	No. of Shares	% of total		
To approve the Directors' remuneration policy	43,106,087	99.29	291,728	0.67	43,397,815	13,284

## Implementation report – audited information

### What the Directors earned in financial years ending 31 March 2017 and 2016

2017	Salary/Fees £000	Benefits £000	Annual bonus £000	Long-term incentives £000	Pension £000	Total £000
<b>Executive Directors</b>						
Paul Abberley	300	12	180	–	60	552
Michael Lilwall <sup>1</sup>	178	8	35	–	68	289
Ben Money-Coutts	225	12	120	–	45	402
Anthony Scott <sup>2</sup>	10	1	–	–	2	13
Gary Teper	230	14	120	–	46	410
<b>Non-executive Directors</b>						
Andrew Didham	50	1	–	–	–	51
Bridget Guerin	50	2	–	–	–	52
Sir David Howard	125	25	–	–	–	150
David Pusinelli	57	1	–	–	–	58
<b>Total</b>	<b>1,225</b>	<b>76</b>	<b>455</b>	<b>–</b>	<b>221</b>	<b>1,977</b>

<sup>1</sup>Resigned from the Board on 23 November 2016

<sup>2</sup>Resigned from the Board on 18 April 2016

2016	Salary/Fees £000	Benefits £000	Annual bonus £000	Long-term incentives £000	Pension £000	Total £000
<b>Executive Directors</b>						
Paul Abberley	300	12	–	–	60	372
Michael Lilwall	274	13	–	–	68	355
Ben Money-Coutts	225	12	–	–	45	282
Anthony Scott	215	13	83	–	43	354
Gary Teper	230	15	–	–	46	291
<b>Non-executive Directors</b>						
Andrew Didham	31	–	–	–	–	31
Bridget Guerin	56	3	–	–	–	59
Sir David Howard	125	25	–	–	–	150
David Pusinelli	61	2	–	–	–	63
<b>Total</b>	<b>1,517</b>	<b>95</b>	<b>83</b>	<b>–</b>	<b>262</b>	<b>1,957</b>



### Benefits

An explanation of the benefits received by the Executive Directors can be found in the policy table on pages 66 to 67. In summary, the benefits received by Executive Directors comprise a car allowance, private medical cover and a mobile and/or iPad.

For the Non-executive Directors amounts reported relate to expenses such as travel and accommodation expenditure incurred on Group business. While these payments are the reimbursement of expenses and not benefits per se, they are included as being a payment which is subject to tax. Sir David Howard also received benefits relating to contributions towards the provision of a car for business travel. This arrangement came to an end as of 31 March 2017.

### Annual bonus outcomes for 2017

The return to profit has resulted in bonuses being awarded to the Executive Directors for the 2017 period. When assessing the performance for the year the Remuneration Committee determined that the overall size of the bonus pool available for distribution to the Executive Directors to be approximately 5% of adjusted PBT (compared with a maximum permitted under the policy of 6%).

50% of this bonus pool was allocated across all the Executive Directors on an equal basis, with the remaining 50% of the bonus pool being allocated to each Executive Director based upon their performance against pre-set individual performance objectives. Further information regarding these targets are specified in the 'Implementation of policy' part of the table on page 67.

The resulting bonus awards are Paul Abberley £180,000, Ben Money-Coutts £120,000, Gary Teper £120,000 and Michael Lilwall £35,000. These awards will be paid in cash apart from £30,000 payable to Paul Abberley, £7,500 to Ben Money-Coutts and £5,000 to Gary Teper that will be deferred into shares for a period of three years.

No annual bonuses were paid to Executive Directors in 2016 under the main plan as there was no reported profit.

### Pensions

The current Executive Directors participate in money purchase arrangements. Details of the levels of pension arrangements can be found in the summary policy table on page 66.

Sir David Howard is a member of the Group's defined benefit pension scheme which provides for a pension equal to 1/60th of final salary (as defined) for each year of pensionable service up to a maximum of 40/60ths. The scheme has a normal retirement age of 65.

Sir David has now passed the age of 65 but is not drawing a pension from it. Instead his pension entitlement is accumulating by a figure determined according to advice and calculations provided by the scheme's actuaries.

More specific detail of the retirement benefits is provided below:

	Increase in accrued pension excluding inflation £000	Transfer value of increase £000	Accrued pension 2017 £000	Accrued pension 2016 £000	Transfer value Accrued pension 2017 £000	Transfer value Accrued pension 2016 £000	Decrease in value of Director's benefits £000
Sir David Howard	—	—	171	162	3,116	3,495	379

- a) The accrued pension entitlement shown is that which would have been paid annually on retirement based upon pensionable service to the end of the financial year (or date of leaving the pension scheme if earlier), excluding any future statutory entitlement to increases prior to retirement which would be due after the financial year-end.
- b) Sir David Howard is over his normal retirement date. The increase in his accrued pension entitlement over the period is due to the application of late retirement factors. The reduced cash equivalent transfer value of his deferred pension benefits as at 31 March 2017 was due to the application of the Trustees' current transfer value assumption setting process (which was updated in September 2016) to the financial market conditions at the year-end.

### Share awards

#### Save As You Earn

In 2017, the Company operated three Save As You Earn schemes, which were open to all employees and Executive Directors once they met the necessary service requirements. Options were offered at a discount of 15% to the average of the mid-market closing price for the three days prior to the offer and are exercisable for a period of six months commencing three years after the saving contract commencement date. In common with similar schemes, the exercise of options under this scheme is not subject to any performance conditions.

As at 31 March 2017, the following Directors held interests under the Save As You Earn schemes:

	Number of options granted	Savings term	Options exercisable between	Price at grant (p)	Exercise price (p)
Gary Teper	1,500	3 years	1 February 2020 and 31 July 2020	283	240
Ben Money-Coutts	1,095	3 years	1 February 2020 and 31 July 2020	283	240

### Performance Share Plan

The third grant of awards under the plan were made on 18 July 2016 for all Executive Directors. The three-year performance period for these awards will be measured following the year ended 31 March 2019.

	Date of grant	Share price on grant (p)	As at 31 March 2016	Granted	As at 31 March 2017	Exercise period
Paul Abberley	9 January 2015	328	91,463	–	91,463	January 2018 to January 2021
	10 July 2015	375	65,000	–	65,000	July 2018 to July 2021
	18 July 2016	285	–	72,115	72,115	July 2019 to July 2022
<b>Total</b>			156,463	72,115	228,578	
Michael Lilwall	9 January 2015	328	41,723	–	41,723	January 2018 to January 2021
	10 July 2015	375	30,000	–	30,000	July 2018 to July 2021
<b>Total</b>			71,723	–	71,723	
Ben Money-Coutts	9 January 2015	328	34,299	–	34,299	March 2018 to March 2021
	10 July 2015	375	45,000	–	45,000	July 2018 to July 2021
	18 July 2016	285	–	50,481	50,481	July 2019 to July 2022
<b>Total</b>			79,299	50,481	129,780	
Anthony Scott	9 January 2015	328	32,774	–	32,774	January 2018 to January 2021
	10 July 2015	375	38,000	–	38,000	July 2018 to July 2021
<b>Total</b>			70,774	–	70,774	
Gary Teper	9 January 2015	328	35,061	–	35,061	January 2018 to January 2021
	10 July 2015	375	30,000	–	30,000	July 2018 to July 2021
	18 July 2016	285	–	51,603	51,603	July 2019 to July 2022
<b>Total</b>			65,061	51,603	116,664	

The awards granted to the Directors on 9 January 2015 vested on 31 March 2017. These awards did not meet the minimum performance conditions measured both on an EPS and margin basis. Accordingly, the entire share awards will lapse in the 2018 financial year.

The remaining awards are all unvested. During the year ended 31 March 2017, the highest mid-market price of the Company's shares was 328.0p (on 22 September 2016) and the lowest mid-market price was 251.38p (on 4 November 2016). At 31 March 2017 the share price was 310.0p.

### Performance Share Plan performance conditions

The tables below set out a summary of the PSP structure and details of the PSP performance measures and conditions.

Performance Share Plan structure summary 2015 to 2017		
Performance measures	EPS and margin	
Performance period	3 years	
Weighting of performance measures	50%	
EPS	Adjusted EPS as measured in third financial year following grant	For both the EPS and margin targets, the profit figure used will be the Group's reported profit adding back the FSCS (or similar) levy and, in exceptional circumstances, adjusted for any other items that the Committee believes are required to ensure that the Group's true underlying financial performance is being measured.
Margin	Operating margin as measured in third financial year following grant	

## PSP performance conditions 2015 to 2017

Grant	January 2015	July 2015	July 2016	July 2017
Measurement financial year	31 March 2017	31 March 2018	31 March 2019	31 March 2020
EPS 0% vesting threshold	Below 19.1p <sup>1</sup>	Below 20p	Below 20p	Below 30p
EPS 20% vesting threshold <sup>2</sup>	19.1p <sup>1</sup>	20p	20p	30p
EPS 100% vesting threshold <sup>2</sup>	24.5p <sup>1</sup>	25p	25p	45p
Performance	Below 19.1p	–	–	–
Element percentage vesting	0%	–	–	–
Margin 0% vesting threshold	Below 8%	Below 10%	Below 10%	Below 12%
Margin 20% vesting threshold <sup>3</sup>	8%	10%	10%	12%
Margin 100% vesting threshold <sup>3</sup>	12%	15%	15%	16%
Performance	Below 8%	–	–	–
Element percentage vesting	0%	–	–	–
Total percentage vesting	0%	–	–	–

<sup>1</sup>The targets were set as annual growth targets with a required growth range of 15%-25% per annum. In order to be consistent with subsequent grants, these have now been expressed as the absolute targets.

<sup>2</sup>In cases where the measurement thresholds are between 20% and 100%, the vesting of the awards is calculated prorata on a straight-line basis.

<sup>3</sup>The Remuneration Committee reserves the right to make appropriate adjustments to some degree with respect to the charge incurred in connection with the share awards made to employed investment managers under the new remuneration arrangements.

The Remuneration Committee will determine all performance condition calculations and specifically has power to adjust the performance conditions to take account of certain circumstances or events.

The minimum performance thresholds for the January 2015 PSP awards have not been met and therefore these awards will lapse in full.

**Directors' interests**

As explained in the Directors' remuneration policy, the Executive Directors are subject to Share Ownership Guidelines and they are required to retain 50% of shares (net of tax) which vest under the PSP or bonus deferral arrangement until such time as they hold shares worth 100% of salary. There is no requirement for Non-executive Directors to hold shares in the Company. The shareholdings of each Director, together with whether they would have achieved the guideline requirements by 31 March 2017 (only including shares beneficially owned, that is excluding unvested share awards and shares 'otherwise held'), are as follows:

	Beneficially held as at 31 March 2016 or appointment if earlier	Beneficially held as at 31 March 2017 or retirement if earlier	Share Ownership Guidelines satisfied?
Paul Abberley	19,698	20,333	No
Andrew Didham	–	–	n/a
Bridget Guerin	–	–	n/a
Sir David Howard	12,810,219	12,810,219	n/a
Ben Money-Coutts	5,732	6,373	No
David Pusinelli	–	–	n/a
Gary Teper	41,727	42,436	No

Each of the Executive Directors acquired 136 additional shares after 31 March 2017.

### Payments to former Directors

As disclosed in last year's Directors' remuneration report, Anthony Scott resigned as a Director on 18 April 2016 and continued in the Company's employment until 15 October 2016.

The following approach was adopted in relation to Anthony Scott's departure:

- Anthony received salary, pension and benefits totalling £174,680 until his departure date of 15 October 2016, at which point all such payments ceased
- Anthony also received the last payment under a legacy profit sharing arrangement relating to his previous role as an active investment manager prior to joining the Board
- Anthony has not received a bonus under the 2017 Annual Bonus
- Anthony was provided with outplacement support to the value of £5,600
- The PSP awards held by Anthony will vest on a prorated basis on the normal vesting dates based on performance against the EPS and margin targets.

Mike Lilwall decided to step down from the Board on 23 November 2016. He remains an employee of the Group and received no compensation for loss of office. However, as per the treatment agreed for Executive Directors who are deemed good leavers, he was awarded £35,000 gross, being the prorated bonus sum, this is to be paid in June 2017.

The Directors are not permitted to hold their shares in hedging arrangements or as collateral for loans without the express permission of the Board. No Director has entered into any such arrangements.

### Approval

This report in its entirety has been approved by the Committee and the Board of Directors and signed on its behalf by:

**Bridget Guerin**

**Remuneration Committee Chair**

13 June 2017

# Risk Committee report



**Andrew Didham**

Chairman of the Risk Committee

The Group has continued to make progress in enhancing the way risks are managed across the organisation with a revised governance structure and further enhancements to the Group's risk management framework and processes. As part of the renewal of the strategy and modernisation of business practices, the Group is committed to embedding a culture of risk awareness into its processes and DNA.

The Committee's register of attendance is set out below.

	Number of meetings	Meetings attended
Andrew Didham	5	5
Bridget Guerin	5	5
David Pusinelli	5	4

## Risk Committee membership

The Risk Committee is composed of three independent Non-executive Directors: Bridget Guerin, David Pusinelli and Andrew Didham, who was appointed a member of the Committee on 18 September 2015 and assumed the role of Risk Committee Chairman at the start of 2016. Details of the Directors' skills and experience can be found on page 48. The meetings are also attended by the Chief Risk Officer, the Chief Executive Officer, external audit and other members of the Management team as necessary.

## Role and responsibilities of the Committee

The Board Risk Committee is responsible for ensuring an effective internal control and risk management environment is maintained in respect of the risks impacting the organisation and advising the Boards of Charles Stanley Group PLC (CSG) and Charles Stanley & Co. Limited (CSC) on related risk matters. The key responsibilities are prescribed in its terms of reference which are reviewed annually and include:

- Providing advice to the Board on the Group's risk appetite, tolerance levels and strategy
- Overseeing and advising the Board on the current risk exposure and emerging risks which could impact on the Group's risk profile
- Reviewing the Group risk management framework and internal control environment to ensure it is adequate and effective
- Reviewing the ICAAP
- Reviewing compliance-related Group procedures.



### Committee activities over the past year

Over the course of the year, the Committee has undertaken a number of key activities:

- Reviewed and approved risk and compliance-related policies
- Reviewed and approved the risk framework including the risk governance structure
- Reviewed and approved the annual Risk and Compliance plans
- Reviewed the ICAAP for recommendation to the CSC and CSG Boards
- Considered the risks arising from the Strategic Plan and associated corporate objectives and the processes in place to manage them
- Received updates on a number of matters including:
  - the Group's cyber security strategy
  - the CASS monitoring programme
  - the activities of the Enterprise Risk and Compliance Committees
  - the regulatory environment and actions taken to ensure the firm meets the requirements.

### Risk management framework

The Group has undertaken a review of its risk framework to ensure a consistent and effective approach to risk management across the Group. The key components of the framework are outlined below and we will continue to strengthen the framework and embed it in the fabric of the organisation over the coming year.

### Risk governance and culture

The arrangement of the Board and the Board committees has been considered as part of the governance review, mentioned earlier. This review has resulted in revisions to the Board and Committee arrangements, including the respective responsibilities of the various committees which oversee the different types of risks.

The Board committees are as follows:

- Executive Committee
- Audit Committee
- Nomination Committee
- Remuneration Committee
- Risk Committee.

The Executive Committee is responsible for the day-to-day running of the business and is supported by a number of control committees – the Enterprise Risk Committee, the Conduct & Culture Committee and the Product & Services Committee – which have contributed to continued enhancements to the Group's risk oversight arrangements.

Charles Stanley has implemented a 'three lines of defence' model to manage risk and provide assurance to Management and the Board with regards to the effectiveness of the Group's control environment:

- Level 1 – Business line Management and staff are responsible for the identification, ownership and management of risk on a day-to-day basis
- Level 2 – The Risk function is responsible for the implementation and oversight of the framework, reporting to the Board and Group-level Committees, and for overseeing and challenging the management of risk. The Compliance function is responsible for the oversight of regulatory compliance
- Level 3 – Internal Audit provides independent assurance that risks are effectively managed and that there is appropriate oversight.

### **Risk strategy and business plans**

The Group Chief Risk Officer provides input in the setting and ongoing review of the Group's strategy and business plan. This includes reporting on the key risks and threats to the strategy and plan as well as the impact on the Group risk profile and appetite.

Future plans to improve the risk and control arrangements and to embed them across the business are defined in the Risk and Compliance annual plans which are approved by the Risk Committee.

### **Risk appetite**

The Risk Appetite Statement, which is reviewed at least annually by the Board, sets out the Group's attitude to risk and the ranges and limits of acceptable risk-taking based on the Group's strategy and objectives.

### **Risk policies**

The risk policies define the Group's approach to monitoring and controlling risk, so as to ensure it is only exposed to risks that are within the Board's risk appetite. There are two layers to the risk policies:

- The Group Risk Policy – sets out the overarching policy in relation to risk management and the risk governance framework for the Group
- Group Level Risk Policies – set out the risk management strategy and framework for the management and oversight of specific risk types.

### **Risk identification and assessment**

All staff are responsible for identifying and assessing the risks in their respective areas. There are a number of tools available to aid them in this task including risk event reporting, deep dive business reviews and scenario workshops, as well as raising issues with the Risk team.

### **Risk management, monitoring and reporting**

The business and support functions are responsible for managing the risks within their areas as well as developing management information to monitor their exposure to those risks.

The Risk function consolidates management information received from across the Group into reports for the Enterprise Risk Committee, the Board Risk Committee and the Charles Stanley Group Board.

Audit findings concerning the risk arrangements are reviewed regularly at the Enterprise Risk Committee which leads to continuous improvements to the Group's control environment.

### **Risk and capital management**

The approach to calculating a risk-based capital requirement for the different types of risks that the Group may be exposed to is defined within the Group's ICAAP.

The financial year ended 31 March 2017 has seen considerable progress in putting in place the building blocks for the continued strength of the Charles Stanley risk and governance arrangements. In the upcoming financial year, these will continue to be developed in line with our annual risk strategy and plan.

**Andrew Didham**

**Risk Committee Chairman**

13 June 2017

# Directors' report



**Julie Ung**  
Company Secretary

The Directors submit their report and financial statements for the year ended 31 March 2017.

## Principal activities and business review

The Company and its Group undertakings provide wealth management services. The Company is a public limited company listed on the London Stock Exchange. A review of the business is set out in the Strategic report on pages 4 to 45, which is incorporated by reference into this report.

## Post year-end events

On 11 April 2017, the Company announced that it had exchanged contracts for the sale of its wholly-owned subsidiary, EBS Management PLC, to Embark Group Limited for up to £4.0 million. The sale transaction completed on 31 May 2017.

## Dividends

The Directors have declared and now recommend the following dividends in respect of the year ended 31 March 2017:

	2017 £000	2016 £000
Interim dividend paid on 20 January 2017 of 1.5p (2016: 1.5p)	760	758
Final dividend proposed of 4.5p (2016: 3.5p)	2,281	1,774
	3,041	2,532

The final dividend proposed by the Directors will be subject to shareholders' approval at the Annual General Meeting on 27 July 2017. Once approved, this will be paid on 31 July 2017 to shareholders on the Company's register at close of business on 30 June 2017.

## Change of control

The Company does not have agreements with any Director or Officer that would provide compensation for loss of office or employment resulting from a change of control following a takeover bid, except that the provisions of the Company's share plans may cause options and awards granted under such schemes to vest on a takeover.

All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable for a limited period of time upon change of control following a takeover, reconstruction or winding up of the Company (not being an internal reorganisation), subject to scheme rules, including the satisfaction of any performance conditions.

## Share capital

As at 31 March 2017, 50,689,206 fully paid ordinary shares of 25 pence each were in issue and listed on the London Stock Exchange. The rights and obligations attaching to the Company's ordinary shares are as follows:

- In terms of voting, every member who is present in person or by proxy at a general meeting of the Company should have one vote on a show of hands and one vote for every share held on a poll
- All shares in issue on the record date rank *pari passu* for dividends. Shareholders are entitled to receive dividends following declaration by the Company

- Employees are restricted from any transfer of shares of the Company that would result in a change in beneficial holding during the period between the end of the Group's financial year-end each year and the date on which the Group announces its preliminary financial results. This restriction also applies during the period between the end of the Group's financial half-year and the announcement of the Group's half-year results. Further restrictions may apply under the Disclosure Guidance and Transparency Rules (DTR) of the FCA in respect of certain employees
- There are no restrictions on the voting rights attached to the Company's ordinary shares or on the transfer of securities in the Company
- No person holds securities in the Company carrying special rights with regard to control of the Company.

### Insurance and indemnity

The Company maintains appropriate insurance cover in respect of litigation against Directors and Officers.

In 2015, the Company granted indemnities to all of its Directors, and one director of an associated company, on terms consistent with the applicable statutory provisions. Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force throughout the financial year and remain so at the date of this report.

### Controlling shareholder

Sir David Howard, his family and connected interests are deemed to be a controlling shareholder under the Listing Rules (LR 6.1.2A). The Board confirms that:

1. the Company has entered into a Relationship Agreement as required by LR 9.2.2AR (2)(a) (the Agreement)
2. (i) the Company has complied with the independence provisions included in the Agreement during the period under review
  - (ii) so far as the Company is aware, the independence provisions included in the Agreement have been complied with during the period under review by the controlling shareholder and/or any of its associates
  - (iii) so far as the Company is aware, the procurement obligation included in the Agreement has been complied with during the period under review by the controlling shareholder.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. Each of the Company's Executive Directors has options as detailed in the Directors' remuneration report on page 62. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Company's Articles of Association may be amended by a special resolution of the Company's shareholders. Copies of the Articles of Association can be obtained from Companies House or by writing to the Company Secretary.

The Directors propose to renew the authority granted to them at the Annual General Meeting held in 2016 to allot equity securities up to an aggregate nominal value of £4,226,934 (the 'section 551 authority'). If approved at the forthcoming Annual General Meeting, the authority will expire no later than 15 months from the date on which the resolution is passed, or at the conclusion of the Annual General Meeting to be held in 2018, whichever is the earlier.

The Directors recommend that you vote in favour of maintaining the Company's flexibility in relation to future share issues.

### Directors

The Directors of the Company at the year-end were Sir David Howard (Chairman), Andrew Didham, Bridget Guerin and David Pusinelli (Non-executive Directors), and Paul Abberley, Ben Money-Coutts and Gary Teper (Executive Directors). Their biographies are set out on page 48 to 51.

Anthony Scott and Michael Lilwall stood down from the Board on 18 April 2016 and 23 November 2016 respectively.

David Pusinelli has decided not to offer himself for re-election as a Non-executive Director at the forthcoming AGM.

The rest of the Directors have agreed to voluntarily retire from the Board at the Annual General Meeting and, being eligible, will offer themselves for re-election by the members.

All Directors have received continuing professional development training during the year regarding matters pertaining to their roles and responsibilities as Directors. The content of such training is kept under constant review, responding to changing needs as they are identified.

Directors' interests in the shares of Charles Stanley Group PLC are disclosed in the Directors' remuneration report on page 84.

From 1 October 2008, a Director has had a statutory duty to avoid a situation in which he or she has, or can have, an interest that conflicts or possibly may conflict with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other Directors. The Articles of Association include the relevant authorisation for Directors to approve such conflicts. The Directors confirm that there are procedures in place to deal with Directors' conflicts and they have operated effectively through the year. None of the Directors had, either during or at the end of the year, any material interest in any contract of significance with the Company or its subsidiaries.

### Taxation status

As far as the Directors are aware, the Company is not a close company for taxation purposes.

### Political donations and expenditure

There were no political donations or expenditure by any Group company (2016: £nil).

### Report on greenhouse gas emissions

Details of the Group's emissions are contained in the Corporate social responsibility report on page 40.

### Major shareholdings

Disclosures made to the Company under rule 5 of the FCA's DTR are set out below:

	No. of shares at 31 March 2017	% of total voting rights
Sir David Howard	10,707,719	21.12
John L S Howard	4,710,515	9.29
Aberforth Partners LLP	2,608,402	5.15
J O Hambro Capital Management	2,273,787	4.49
Queen Street Securities (a company of which Sir David Howard is a Director)	2,102,500	4.15
The Wellcome Trust Limited	1,617,700	3.19
Blackrock Inc.	2,422,982	4.78

### Auditors

So far as each of the Directors is aware, there is no relevant information that has not been disclosed to the Company's auditors and each of the Directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the Company's auditors have been made aware of that information.

### Corporate governance statement

Rule DTR 7.2.1 requires the Group's disclosures on corporate governance to be included in the Directors' report. This information is presented on page 52 and the information in that section is incorporated by reference into this Directors' report and is deemed to form part of this report.

By order of the Board

**Julie Ung**

**Company Secretary**

13 June 2017

# Directors' responsibilities

The Directors are responsible for preparing the Annual report and the Group and Parent Company financial statements in accordance with applicable law and Regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under the law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and appropriate
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements and the Directors' remuneration report comply with the Companies Act 2006. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and Regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate governance report that comply with that law and those Regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and responsibilities are listed in the Corporate governance report, confirm that, to the best of their knowledge:

- The Group and Parent Company financial statements, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy
- The Strategic report and financial statements include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

**Julie Ung**  
**Company Secretary**  
13 June 2017



# Independent auditor's report to the members of Charles Stanley Group PLC only

## Opinions and conclusions arising from our audit

### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Charles Stanley Group PLC for the year ended 31 March 2017 set out on pages 99 to 154. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2017 and of the Group's profit for the year then ended
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU)
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Overview	
<b>Materiality:</b>	£0.65m (2016: £0.7m)
Group financial statements as a whole	0.5% (2016: 0.5%) of gross Group revenue
<b>Coverage</b>	100% (2016: 100%) of Group profit before tax
<b>Risks of material misstatement</b>	<b>vs 2016</b>
<b>Recurring risks</b>	Carrying amount of goodwill 
	Valuation of actuarial liability 

## 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

	The risk	Our response
<p><b>Recoverability of goodwill</b> £14.1 million (2016: £16.0 million)</p> <p>Refer to page 58 (Audit Committee report), page 108 (accounting policy) and pages 127 to 128 (financial disclosures).</p>	<p><b>Forecast-based valuation:</b> The consolidated statement of financial position includes a significant goodwill balance. The carrying amount of goodwill could be materially misstated if inappropriate judgements and estimates were used by the Directors in calculating the recoverable amount for each CGU as part of their impairment assessment. The Charles Stanley Direct CGU represents the most significant singular element of the goodwill balance, while goodwill associated with different investment management teams accounts for the majority of the remaining balance.</p> <p>The Directors have considered the carrying amount of the goodwill of £5.2 million allocated to the Charles Stanley Direct CGU by calculating fair value less costs to sell based on the recent market transactions involving similar businesses and by applying industry-specific valuation techniques. Charles Stanley Direct is a young business and the inputs to the valuation model are inherently judgemental. Accordingly, there is an increased risk that there could be a material difference between the goodwill carrying value and the fair value.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Benchmarking assumptions:</b> Comparing the Group's assumptions to externally-derived data in relation to key inputs such as details of market transactions and ratios of FuM</li> <li>• <b>Sensitivity analysis:</b> Performing stress testing on the assumptions noted above</li> <li>• <b>Comparing valuations (Charles Stanley Direct):</b> Comparing the sum of the discounted cash flows to the fair value less costs to sell to assess the reasonableness of the carrying amount of the goodwill</li> <li>• <b>Assessing transparency:</b> Assessing whether the Group's disclosures about the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.</li> </ul>
<p><b>Valuation of actuarial liability</b> £32.2 million (2016: £36.7 million)</p> <p>Refer to page 59 (Audit Committee report), page 107 (accounting policy) and pages 121 to 125 (financial disclosures).</p>	<p><b>Subjective estimate:</b> Significant estimates are made in determining the Group's defined benefit scheme actuarial valuation, and changes in assumptions and estimates used to value the Group's actuarial liability can have a significant effect on the results and financial position of the Group.</p> <p>Any changes in the obligation of the scheme to its members may also materially impact the amount of the defined benefit scheme liability, and therefore the net deficit of the scheme to be recognised on the Group balance sheet.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Benchmarking assumptions:</b> Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy</li> <li>• <b>Assessing transparency:</b> Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.</li> </ul>



In the prior year we included within our audit report that we performed procedures over the accrual of transition bonuses which formed part of the Group's remuneration arrangements with its front office investment management professionals. As part of a transition to revised remuneration and fee-sharing arrangements it had been agreed with certain investment professionals that fee-sharing arrangements for the year ended 31 March 2016 would be amended. The calculation of this one-off transitional arrangement could have had a significant effect on the results and financial position of the Group for the year ended 31 March 2016. However, as this risk was concerned about the calculation of a one-off transitional arrangement only for that year, it is not one of the risks that had the greatest effect on our audit for the year ended 31 March 2017.

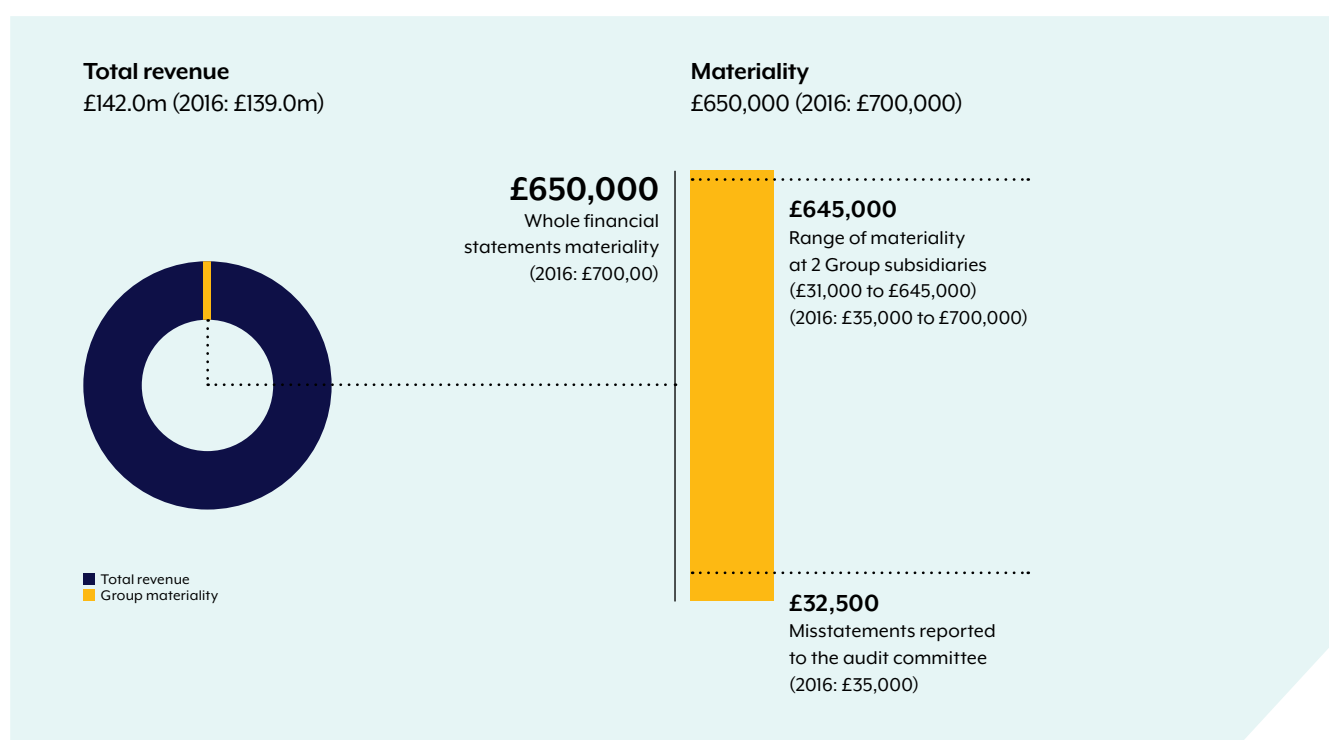
### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £650,000 (2016: £700,000) determined with reference to a benchmark of Group revenue of which it represents approximately 0.5% (2016: 0.5%). As the Group has returned to a profit position, we retained our planning materiality at year-end to take account of the overall Group results.

We consider Group revenue to be a more appropriate benchmark as the Group incurred losses in the prior year and revenue is the principal consideration of members of the Company in assessing the financial performance of the Group.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £32,500 (2016: £35,000) in addition to other audit misstatements that warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above, covered 100% of total Group revenue, Group profit before taxation and total Group assets, and was all performed at the Group's head office in London.



#### **4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006
- the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006
- in our opinion, the Corporate Governance Statement has been prepared in accordance with rules 7.2.2, 7.2.3, 7.2.5, 7.2.6 and 7.2.7 of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

#### **5. We have nothing to report on the disclosures of principal risks**

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of longer-term viability on page 34 and 35, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Company's continuing in operation over the three years to 31 March 2020; or
- the disclosures in note 2.6 of the financial statements concerning the use of the going concern basis of accounting.

#### **6. We have nothing to report in respect of the matters on which we are required to report by exception**

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing rules we are required to review:

- the Directors' statements, set out on pages 34 and 35, in relation to going concern and longer-term viability
- the part of the Corporate governance statement on page 52 relating to the Group's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

### Scope of report and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 92, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Simon Ryder (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
13 June 2017

The Group's consolidated financial statements and the Parent Company financial statements, prepared in accordance with IFRS, are set out in the following pages.



## Financial statements

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# Consolidated income statement

## Year ended 31 March 2017

	Notes	2017 £000	2016 £000
<b>Continuing operations</b>			
Revenue	4	141,630	138,650
Administrative expenses	4	(136,122)	(139,163)
Impairment of intangible assets	4	(650)	(465)
Other income	6	186	153
Operating profit/(loss)	7	5,044	(825)
Gain on surrender of lease	15	5,550	–
Loss on disposal of fixed assets	15	(2,199)	(131)
Gain on sale of business		148	299
Gain on sale of corporate investments		423	–
Impairment of corporate loans	18	(500)	–
Finance income	8	397	69
Finance costs	8	(64)	(99)
Net finance and other non-operating income		3,755	138
Profit/(loss) before tax		8,799	(687)
Tax (expense)/credit	12	(2,539)	47
Profit/(loss) from continuing operations		6,260	(640)
<b>Discontinued operations</b>			
Profit from discontinued operations	5	–	333
Profit/(loss) for the year attributable to owners of the Parent Company		6,260	(307)

### Earnings per share

From continuing and discontinued operations			
Basic	9	12.35p	(0.61p)
Diluted	9	12.34p	(0.61p)
<b>From continuing operations</b>			
Basic	9	12.35p	(1.27p)
Diluted	9	12.34p	(1.27p)

The notes on pages 105 to 145 are an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

## Year ended 31 March 2017

	Notes	2017 £000	2016 £000
Profit/(loss) for the year		6,260	(307)
Other comprehensive income			
<b>Items that will never be reclassified to profit or loss</b>			
Remeasurement of the defined benefit plan obligation	11	(1,093)	2,515
Related tax		81	(753)
		(1,012)	1,762
<b>Items that are or may be reclassified to profit or loss</b>			
Available-for-sale financial assets – net change in fair value	17	737	(183)
Available-for-sale financial assets – reclassified to profit or loss	17	170	53
Related tax	16	(195)	90
		712	(40)
Other comprehensive income for the year, net of tax		(300)	1,722
Total comprehensive income for the year attributable to owners of the Parent Company		5,960	1,415

The notes on pages 105 to 145 are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

As at 31 March 2017

	Notes	2017 £000	2016 £000
<b>Assets</b>			
Intangible assets	14	21,220	25,400
Property, plant and equipment	15	9,976	10,732
Net deferred tax asset	16	1,878	2,042
Available-for-sale financial assets	17	5,626	6,969
Trade and other receivables	18	–	250
<b>Non-current assets</b>		<b>38,700</b>	<b>45,393</b>
Trade and other receivables	18	144,673	146,364
Financial assets at fair value through profit or loss	19	73	72
Current tax assets		–	118
Available-for-sale financial assets	17	2,450	–
Assets held for sale	13	8,965	1,722
Cash and cash equivalents	20	52,101	48,095
<b>Current assets</b>		<b>208,262</b>	<b>196,371</b>
<b>Total assets</b>		<b>246,962</b>	<b>241,764</b>
<b>Equity</b>			
Share capital	21	12,672	12,669
Share premium	21	4,429	4,402
Revaluation reserve		3,378	2,666
Merger relief reserve	21	15,167	15,167
Retained earnings		53,424	50,461
<b>Equity attributable to owners of the Parent Company</b>		<b>89,070</b>	<b>85,365</b>
Non-controlling interests		24	24
<b>Total equity</b>		<b>89,094</b>	<b>85,389</b>
<b>Liabilities</b>			
Employee benefits	11	10,528	10,090
Provisions	22	1,108	–
<b>Non-current liabilities</b>		<b>11,636</b>	<b>10,090</b>
Trade and other payables	23	141,509	141,883
Current tax liabilities		994	–
Provisions	22	2,162	4,367
Liabilities held for sale	13	1,567	35
<b>Current liabilities</b>		<b>146,232</b>	<b>146,285</b>
<b>Total liabilities</b>		<b>157,868</b>	<b>156,375</b>
<b>Total equity and liabilities</b>		<b>246,962</b>	<b>241,764</b>

Approved by the Board on 13 June 2017 and signed on its behalf by:

Paul Abberley (Director)

Ben Money-Coutts (Director)

The notes on pages 105 to 145 are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

Year ended 31 March 2017

	Share capital £000	Share premium £000	Re-valuation reserve £000	Merger relief reserve £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total equity £000
1 April 2016	12,669	4,402	2,666	15,167	50,461	85,365	24	85,389
Profit for the year	–	–	–	–	6,260	6,260	–	6,260
Other comprehensive income:								
Revaluation of available-for-sale financial assets								
– net profit from change in fair values	–	–	737	–	–	737	–	737
– net profit on disposal transferred to profit or loss	–	–	170	–	–	170	–	170
Deferred tax on available-for-sale financial assets	–	–	(195)	–	–	(195)	–	(195)
Remeasurement of defined benefit plan liability								
– actuarial loss in the year	–	–	–	–	(1,093)	(1,093)	–	(1,093)
– deferred tax movement on plan liability	–	–	–	–	(20)	(20)	–	(20)
– current tax relief	–	–	–	–	101	101	–	101
Total other comprehensive income for the year	–	–	712	–	(1,012)	(300)	–	(300)
Total comprehensive income for the year	–	–	712	–	5,248	5,960	–	5,960
Dividends paid	–	–	–	–	(2,534)	(2,534)	–	(2,534)
Share-based payments:								
– value of employee services	–	–	–	–	249	249	–	249
– issue of shares	3	27	–	–	–	30	–	30
31 March 2017	12,672	4,429	3,378	15,167	53,424	89,070	24	89,094

The notes on pages 105 to 145 are an integral part of these consolidated financial statements.



	Share capital £000	Share premium £000	Re-valuation reserve £000	Merger relief reserve £000	Retained earnings £000	Total £000	Non- controlling interests £000	Total equity £000
1 April 2015	11,490	4,139	2,706	–	50,559	68,894	24	68,918
Loss for the year	–	–	–	–	(307)	(307)	–	(307)
Other comprehensive income:								
Revaluation of available-for-sale financial assets								
– net loss from change in fair values	–	–	(183)	–	–	(183)	–	(183)
– net profit on disposal transferred to profit or loss	–	–	53	–	–	53	–	53
Deferred tax on available-for-sale financial assets	–	–	90	–	–	90	–	90
Remeasurement of defined benefit plan liability								
– actuarial gain in the year	–	–	–	–	2,515	2,515	–	2,515
– deferred tax movement on plan liability	–	–	–	–	(753)	(753)	–	(753)
Total other comprehensive income for the year	–	–	(40)	–	1,762	1,722	–	1,722
Total comprehensive income for the year	–	–	(40)	–	1,455	1,415	–	1,415
Dividends paid	–	–	–	–	(1,754)	(1,754)	–	(1,754)
Share-based payments:								
– value of employee services	–	–	–	–	201	201	–	201
– issue of shares	30	263	–	–	–	293	–	293
Issues of ordinary shares	1,149	–	–	15,167	–	16,316	–	16,316
31 March 2016	12,669	4,402	2,666	15,167	50,461	85,365	24	85,389

The notes on pages 105 to 145 are an integral part of these consolidated financial statements.

# Consolidated statement of cash flows

Year ended 31 March 2017

	Notes	2017 £000	2016 £000
<b>Cash flows from operating activities</b>			
Cash generated from operating activities	27	10,688	8,666
Interest received		195	136
Interest paid		(63)	(36)
Tax paid		(1,367)	(453)
Net cash from operating activities		9,453	8,313
<b>Cash flows from investing activities</b>			
Proceeds from surrender of lease	15	5,550	–
Acquisition of intangible assets	14	(1,089)	(2,545)
Purchase of property, plant and equipment		(2,562)	(479)
Proceeds from disposal of property, plant and equipment		–	7
Purchase of available-for-sale financial assets	17	(1,842)	(327)
Proceeds from sale of available-for-sale financial assets		1,642	223
Net proceeds from disposal of business		1,180	1,623
Dividends received		186	152
Net cash generated from/(used in) investing activities		3,065	(1,346)
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary share capital	21	30	16,316
Purchase of ordinary shares for employee share schemes	21	–	294
Repayment of borrowings		–	(1,974)
Dividends paid	21	(2,534)	(1,754)
Net cash (used in)/generated from financing activities		(2,504)	12,882
<b>Net increase in cash and cash equivalents</b>		<b>10,014</b>	<b>19,849</b>
Cash and cash equivalents at start of year		48,415	28,566
Cash and cash equivalents at end of year		58,429	48,415
Cash and cash equivalents shown in current assets	20	52,101	48,095
Cash classified as assets held for sale	13	6,328	320
Cash and cash equivalents at end of year		58,429	48,415

The Group has elected to present a consolidated statement of cash flows that analyses total cash flows including both continuing and discontinued operations. Amounts relating to discontinued operations are disclosed in note 5.

The notes on pages 105 to 145 are an integral part of these consolidated financial statements.

# Notes to the financial statements

Year ended 31 March 2017

## 1. General information

Charles Stanley Group PLC (the Company) is the Parent Company of the Charles Stanley group of companies (the Group). The principal activities of the Group are set out in the Directors' report.

The Company is a public limited company which is listed on the London Stock Exchange and is domiciled in the United Kingdom. The Company is registered in England and Wales. The address of its registered office is 55 Bishopsgate, London, UK, EC2N 3AS.

## 2. Basis of preparation and significant accounting policies

The principal accounting policies applied in the presentation of these financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements and the Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the Companies Act 2006.

As permitted by section 408 of the Companies Act 2006, no profit and loss account is presented for the Parent Company. The notes and information for the Parent Company are presented on pages 146 to 153.

### 2.2 Functional and presentation currency

The Group and Parent Company financial statements are presented in GBP, which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

### 2.3 Comparative figures

Certain comparative figures have been amended to reflect presentational changes in the current year financial statements. These changes have had no impact on prior year reported earnings or net assets.

### 2.4 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis at each reporting date:

Item	Measurement basis
Freehold premises	Revalued amount
Available-for-sale financial assets	Fair value
Assets and liabilities held for sale	Lower of carrying amount and fair value less costs to sell
Non-derivative financial instruments held at fair value through profit or loss	Fair value
Liabilities for share-based payment arrangements	Fair value
Net defined benefit asset or liability	Fair value of plan assets less the present value of the defined benefit obligation

### 2.5 Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

## 2. Basis of preparation and significant accounting policies (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Any gain on a bargain purchase is recognised immediately in the income statement.

Intercompany transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.6 Going concern

These consolidated financial statements have been prepared on a going concern basis. The Directors assessed the going concern of the Group in light of its current trading performance. The Directors looked at the forecasts covering the 18-month period from 31 March 2017 to 30 September 2018 and applied stress tests for adverse scenarios, which were determined as part of the Group's ICAAP. As a result it was determined that the Group has sufficient liquidity to cover all anticipated payments during that period. The Directors also considered the regulatory capital of the Group and determined that, based on the latest approved forecasts, the Group will have sufficient regulatory capital for the same 18-month period.

At the time of approving the financial statements, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

### 2.7 Foreign currency translation

Foreign currency transactions are translated into GBP using the exchange rates prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

### 2.8 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Parent Company.

Segment results that are reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

### 2.9 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group, and which:

- Represents a separate major line of business or geographic area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

### 2.10 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities. Revenue is shown net of VAT, rebates and discounts and after eliminating sales within the Group.

## 2. Basis of preparation and significant accounting policies (continued)

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

### 2.10.1 Commission

Commission income and expenses are recognised on a trade date basis.

### 2.10.2 Fees

Investment management, administration and corporate finance retainer fees are recognised evenly over the period in which the service is provided. Corporate finance success fees are recognised when earned.

### 2.10.3 Dividend income

Dividend income is recognised when the right to receive payment is established.

### 2.10.4 Interest income

Interest income is recognised using the effective interest method.

## 2.11 Share-based payments

The Group operates various equity-settled share-based payments schemes under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the share options or share awards is recognised as an expense. The total amount to be expensed is determined by reference to the grant date fair value of the share options or share awards granted:

- Including market performance conditions
- Excluding the impact of any service and non-market performance vesting conditions (such as profitability targets, sales growth targets or remaining an employee of the entity over a specified time period)
- Including the impact of any non-vesting conditions (such as the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of share options or share awards that are ultimately expected to vest.

The total employee expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of share options or share awards that are expected to vest based on the non-market vesting conditions. It recognises the impact of any revision to original estimates in the income statement, with a corresponding adjustment to equity.

When the share options are exercised or share awards made, the Parent Company issues new ordinary shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

## 2.12 Employee benefits

### 2.12.1 Pension obligations

The Group operates two pension schemes – a defined benefit and a defined contribution scheme. The defined benefit scheme defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The defined contribution scheme is a pension plan under which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods.

## 2. Basis of preparation and significant accounting policies (continued)

The net charge to the income statement in respect of the defined benefit scheme mainly comprises the service cost and the net interest on the net defined benefit asset or liability and is presented in operating expenses. The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of AA credit-rated corporate bonds that have terms of maturity approximating to the terms of the related pension liability.

Remeasurements of the defined benefit obligation arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past service costs are recognised immediately in the income statement.

### 2.12.2 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. Payments made in advance of services being provided are treated as prepayments.

### 2.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or in equity. In this case the associated tax is recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the UK.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is not provided on temporary timing differences arising on goodwill as the temporary timing difference will not reverse in the foreseeable future.

### 2.14 Non-current assets held for sale

Non-current assets held for sale are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

### 2.15 Intangible assets

#### 2.15.1 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill arising on acquisition of subsidiaries is included under intangible assets and goodwill. Goodwill is tested for impairment at the end of each reporting period and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

## 2. Basis of preparation and significant accounting policies (continued)

Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

### 2.15.2 Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Customer relationships acquired outside of a business combination are initially recognised at cost. The customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their useful lives, estimated at ten years.

### 2.15.3 Internally generated software

Computer software which is not an integral part of the related hardware or has been developed internally by the Group is recognised as an intangible asset when the Group is expected to benefit from future use of the software and the costs are reliably measurable. Computer software costs recognised as assets are amortised using the straight-line method over their useful lives (three years).

### 2.16 Property, plant and equipment

Freehold premises are measured at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of a replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of freehold premises are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold and leasehold properties	3 to 50 years
Vehicles	3 years
Furniture, fittings and equipment	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

When revalued assets are sold, any revaluation amounts included in other reserves are transferred to retained earnings.

### 2.17 Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

The Group classifies its non-derivative financial liabilities as other financial liabilities.

#### 2.17.1 Non-derivative financial instruments – recognition and derecognition

The Group recognises loans and receivables on the date when they are originated. All other financial assets and liabilities are recognised when the Group becomes party to the contractual provisions of the instrument.

## 2. Basis of preparation and significant accounting policies (continued)

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire. Financial liabilities are derecognised when the associated contractual obligations are discharged, or expire.

Financial assets and liabilities are only offset and presented on a net basis if the Group has a legally enforceable right of set-off and intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

Financial instruments are recognised initially at fair value plus directly attributable transaction costs if they are not classified as fair value through profit or loss. Financial instruments classified as fair value through profit or loss are recognised initially at fair value, with associated transaction costs being expensed immediately to the income statement.

### 2.17.2 Non-derivative financial assets – measurement

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Financial assets at fair value through profit or loss are carried at fair value. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the consolidated income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement when the Group's right to receive payments is established.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or Management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial assets are carried at fair value. Gains or losses arising from changes in the fair value of available-for-sale financial assets are presented in the consolidated statement of comprehensive income in the period in which they arise. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to the consolidated income statement.

Interest on available-for-sale financial assets is calculated using the effective interest method and recognised in the consolidated income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payment is established.

#### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Loans and receivables are carried at amortised cost using the effective interest method, less any impairment. Interest income is recognised using the effective interest rate, except for short-term receivables where the interest would be immaterial.

### 2.17.3 Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are measured initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest rate method.

## 2.18 Impairment

### 2.18.1 Impairment of non-derivative financial assets

The Group assesses all financial assets for indicators of impairment at the end of each reporting period, except those held at fair value through profit or loss. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The carrying value of the financial asset is reduced by the impairment loss.



## 2. Basis of preparation and significant accounting policies (continued)

For listed and unlisted equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses recognised in other comprehensive income are reclassified to profit or loss in the period. If the impairment loss reduces in subsequent periods, impairment losses previously recognised in profit and loss are not reversed through profit and loss. Increases in fair value subsequent to the recognition of an impairment loss are recognised in the consolidated statement of comprehensive income.

### 2.18.2 Impairment of non-financial assets

Intangible assets, such as goodwill, are regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. These assets are not amortised and are tested for impairment at each reporting date. Assets with a determinable useful life are amortised over the useful life and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (CGUs).

The Group determines a CGU's recoverable amount initially by estimating fair value less costs to sell, based on recent public transactions for similar businesses. If the carrying amount relating to any CGU exceeds the fair value less costs to sell, value in use is also calculated using a discounted cash flow method. If the carrying amount of the CGU also exceeds the value in use, an impairment charge is recognised. Non-financial assets other than goodwill, which have previously suffered an impairment, are reviewed for possible reversal of the impairment at each reporting date.

### 2.19 Trade receivables

Trade receivables are amounts due from clients and other counterparties for services performed in the ordinary course of business. If collection is expected within one year they are classified as current assets. Receivables due after one year are presented as non-current assets.

Trade receivables are measured at amortised cost using the effective interest method, less provision for impairment.

### 2.20 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held on call with banks.

### 2.21 Segregated funds

Segregated funds are held in trust by the Group on behalf of clients in accordance with the FCA's Client Asset Rules. The corresponding liability to clients is not shown within the Group's statement of financial position.

### 2.22 Dividends

Dividend distributions to the Parent Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

### 2.23 Provisions

Provisions are recognised when:

- The Group has a present obligation (legal or constructive) as a result of a past event
- The obligation can be measured reliably
- It is probable that the Group will be required to settle that obligation.

Provisions are measured based on the estimated consideration required to settle the obligation at the date of the consolidated statement of financial position and are discounted to present value where the effect is material.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount receivable can be measured reliably.

## 2. Basis of preparation and significant accounting policies (continued)

### 2.24 Trade payables

Trade payables consist of amounts payable to clients and other counterparties and obligations to pay suppliers for goods or services in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year. Payables due after one year are presented as non-current liabilities.

Trade payables are measured at amortised cost using the effective interest method.

### 2.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Leases are classified as finance leases where the Group has substantially all the risks and rewards of ownership. Finance leases are capitalised at the lease's commencement date at the lower of fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the finance balance outstanding. The corresponding rental obligation, net of finance charges, is included as a liability in the statement of financial position. Property, plant and equipment acquired under a finance lease is depreciated over the shorter of the useful life of the asset and the lease term.

### 2.26 Investments in subsidiaries

In the Parent Company's financial statements, investments in subsidiaries are stated at cost less any provision for impairment.

### 2.27 Application of new and revised IFRSs and changes in accounting policy

The Group has consistently followed the same accounting policies, presentation and methods of computation in these consolidated financial statements as applied in the Group's consolidated financial statements for the year ended 31 March 2016.

A number of new standards and amendments to standards and interpretations are effective for periods beginning on or after 1 April 2017. The following new standards are not applicable to these financial statements but are expected to have an impact when they become effective. The Group plans to apply these standards in the reporting period in which they become effective.

#### 2.27.1 IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and measurement. It includes new guidance on the classification, measurement and impairment of financial instruments. IFRS 9 is effective for annual periods commencing on or after 1 January 2018.

#### 2.27.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 outlines a single comprehensive model for revenue arising from contracts with customers and supersedes existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for periods commencing on or after 1 January 2018.

#### 2.27.3 IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases. It eliminates the classification of leases as either operating leases or finance leases. Any leases with more than 12 months' term are to be recognised as a lease asset in the Statement of Financial Position and the related future lease obligations shown as a liability. IFRS 16 is effective for annual periods commencing on or after 1 January 2019.

At the date of publication of these financial statements, the Directors were still assessing the impact of each of these new standards on the Group.

### 3. Use of judgements and estimates

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions to determine the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on the Group's historical experience and other relevant factors. Actual results may differ from the estimates applied.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### 3.1 Critical judgements in applying the Group's accounting policies

The following critical judgements have been made by the Directors in applying the Group's accounting policies:

##### 3.1.1 Intangible assets and goodwill

For the purposes of impairment testing, the Parent Company and the Group assess goodwill and client relationships based on the recoverable amount of individual units making up the relevant intangible asset, in accordance with the accounting policy set out in note 2. The recoverable amount is calculated based on assumptions which are set out in more detail in note 14.

Impairment charges in the year were allocated fully to goodwill and included in impairment of intangible assets and investments in the consolidated income statement. See note 14 for further details on the impairment charge.

It was concluded that no other impairments to the carrying value of goodwill or intangible assets are required.

##### 3.1.2 Retirement benefit obligations

In consultation with an independent actuary, the Parent Company and the Group make estimates about a number of long-term trends and market conditions to determine the value of the deficit of its defined benefit pension scheme. These long-term forecasts and estimates are highly judgemental and subject to the risk that actual events may be significantly different from those forecast.

The valuation performed as at 31 March 2017 resulted in an increase in the actuarial deficit of £0.4 million which has been reflected in these financial statements.

##### 3.1.3 Available-for-sale assets

Unlisted available-for-sale financial assets include an investment in Euroclear PLC. The Directors have estimated the fair value of this investment based on a recent share buyback process undertaken by Euroclear PLC in which the Group sold part of its shareholding.

During the year, the value of the investment in Runpath Group Limited was reviewed based on the partial sale of the Group's holding.

Further information on the Group's available-for-sale financial assets is included in note 17. No new information has become available that would require a change in the valuation of any further unlisted investments.

#### 4. Operating segments

The Group has four operating divisions, representing the Core Business, which are its reportable segments. These segments are the basis on which the Group reports its performance to the Board, which is the Group's chief operating decision-maker.

	Continued operations						Discontinued operations	Total
	Investment Management Services £000	Asset Management £000	Financial Planning <sup>2</sup> £000	Charles Stanley Direct £000	Support Functions £000	Subtotal £000	£000	£000
<b>Year ended 31 March 2017</b>								
Investment management fees	65,077	3,441	760	–	–	69,278	–	69,278
Administration fees	12,315	2,480	7,183	3,067	–	25,045	–	25,045
Total fees	77,392	5,921	7,943	3,067	–	94,323	–	94,323
Commission	45,303	702	25	1,277	–	47,307	–	47,307
<b>Total revenue</b>	<b>122,695</b>	<b>6,623</b>	<b>7,968</b>	<b>4,344</b>	<b>–</b>	<b>141,630</b>	<b>–</b>	<b>141,630</b>
Administrative expenses	(65,028)	(3,632)	(7,365)	(3,072)	(57,025)	(136,122)	–	(136,122)
Impairment of intangible assets	–	–	–	–	(650)	(650)	–	(650)
Other income	186	–	–	–	–	186	–	186
Operating contribution	57,853	2,991	603	1,272	(57,675)	5,044	–	5,044
Allocated costs	(48,699)	(2,500)	(3,358)	(3,118)	57,675	–	–	–
Operating profit/(loss) <sup>1</sup>	9,154	491	(2,755)	(1,846)	–	5,044	–	5,044
Segment assets	225,909	1,179	10,455	9,122	297	246,962	–	246,962
Segment liabilities	156,301	–	1,567	–	–	157,868	–	157,868

##### Notes

<sup>1</sup>The operating profit/(loss) as per the above table is different to that presented in the divisional analysis within the Review of the year as the above table includes adjusting items which are excluded from the Core Business analysis.

<sup>2</sup>As at 31 March 2017, EBS Management PLC was included within the Financial Planning division and its assets and liabilities were classified as held for sale. The disposal of EBS Management PLC was completed on 31 May 2017. See note 13 for further information.

#### 4. Operating segments (continued)

	Continued operations						Discontinued operations £000	Total £000
	Investment Management Services £000	Asset Management £000	Financial Planning <sup>2</sup> £000	Charles Stanley Direct £000	Support Functions £000	Subtotal £000		
<b>Year ended 31 March 2016</b>								
Investment management fees	58,098	2,407	1,453	–	–	61,958	–	61,958
Administration fees	17,125	2,620	6,467	3,876	–	30,088	62	30,150
Corporate finance	–	–	–	–	–	–	2,741	2,741
<b>Total fees</b>	<b>75,223</b>	<b>5,027</b>	<b>7,920</b>	<b>3,876</b>	<b>–</b>	<b>92,046</b>	<b>2,803</b>	<b>94,849</b>
Commission	44,792	521	383	908	–	46,604	177	46,781
<b>Total revenue</b>	<b>120,015</b>	<b>5,548</b>	<b>8,303</b>	<b>4,784</b>	<b>–</b>	<b>138,650</b>	<b>2,980</b>	<b>141,630</b>
Administrative expenses	(69,440)	(6,943)	(7,699)	(2,816)	(52,475)	(139,373)	(2,458)	(141,831)
Impairment of intangible assets	–	–	(465)	–	–	(465)	–	(465)
Other income	153	–	–	–	–	153	–	153
Operating contribution	50,728	(1,395)	139	1,968	(52,475)	(1,035)	522	(513)
Allocated costs	(46,196)	430	(2,757)	(3,357)	52,090	210	(205)	5
<b>Operating profit/(loss)<sup>1</sup></b>	<b>4,532</b>	<b>(965)</b>	<b>(2,618)</b>	<b>(1,389)</b>	<b>(385)</b>	<b>(825)</b>	<b>317</b>	<b>(508)</b>
Segment assets	144,250	1,502	6,908	7,102	81,684	241,446	318	241,764
Segment liabilities	127,303	2	35	18	28,963	156,321	54	156,375

##### Notes

<sup>1</sup>The operating profit/(loss) as per the above table is different to that presented in the divisional analysis within the Review of the year as the above table includes adjusting items which are excluded from the Core Business analysis.

<sup>2</sup>As at 31 March 2016, Charles Stanley Financial Solutions was included within the Financial Planning division and its assets and liabilities were classified as held for sale. The disposal of Charles Stanley Financial Solutions Limited was completed on 1 April 2016. See note 13 for further information.

## 5. Discontinued operations

### Results from discontinued operations

The Group completed the sale of the Charles Stanley Securities division (excluding the equity sales trading business) to Panmure Gordon (UK) Limited on 15 July 2015. There were no reportable discontinued operations during the current year.

	2017 £000	2016 £000
Revenue	–	2,980
Expenses	–	(2,663)
Results from operating activities	–	317
Gain on sale of business	–	99
Profit before tax	–	416
Tax expense	–	(83)
Profit for the year	–	333

### Cash flows used in discontinued operations

Net cash used in operating activities	–	(1,507)
Net cash outflows for the year	–	(1,507)

### Effect of disposal on the financial position of the Group

Intangible assets	–	1,524
Trade and other receivables	–	507
Net assets and liabilities	–	2,031

Consideration received satisfied in cash	–	1,623
Net cash inflows	–	1,623

## 6. Other income

	2017 £000	2016 £000
Dividend income on available-for-sale financial assets	186	153

## 7. Operating profit/(loss)

Operating profit/(loss) for the year has been arrived at after charging/(crediting):

	2017 £000	2016 £000
Depreciation of property, plant and equipment	2,112	2,896
Amortisation and impairment	3,975	3,707
(Gains)/losses on financial assets at fair value through profit or loss	(15)	48
(Gains)/losses on foreign currency exchange	(232)	11
Operating lease rentals payable	4,521	3,158
Financial Services Compensation Scheme Levy	817	1,632
<b>Fees payable to the Company's auditor for audit services:</b>		
Audit of the Company's annual accounts	52	72
Audit of the Company's subsidiaries	178	200
<b>Fees payable to the Company's auditor for other services:</b>		
Tax compliance services	30	30
Regulatory-related assurance services	70	50
Other assurance services	46	50

## 8. Net finance income/(costs)

	2017 £000	2016 £000
Interest income	195	36
Gains on available-for-sale financial assets	202	33
Finance income	397	69
Interest payable on bank borrowings	(63)	(36)
Interest payable on other loans	(1)	(63)
Finance costs	(64)	(99)
Net finance income/(costs)	333	(30)

## 9. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to equity holders of the Parent Company by the weighted average number of ordinary shares in issue during the period.

	2017 pence per share	2016 pence per share
<b>Basic earnings per share</b>		
From continuing operations	12.35	(1.27)
From discontinued operations	–	0.66
<b>Total basic earnings per share</b>	<b>12.35</b>	<b>(0.61)</b>

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume exercise of all potentially dilutive share options.

	2017 pence per share	2016 pence per share
<b>Diluted earnings per share</b>		
From continuing operations	12.34	(1.27)
From discontinued operations	–	0.66
<b>Total diluted earnings per share</b>	<b>12.34</b>	<b>(0.61)</b>

The Directors believe that a truer reflection of the performance of the Group's underlying business is given by the measure of Core Business earnings per share, which is presented in the Review of the year. This measure is also followed by the analyst community as a benchmark of the Group's underlying performance.

The earnings and weighted average number of shares used in the calculation of basic and diluted earnings per share is shown below:

	2017 £000	2016 £000
<b>Earnings</b>		
Earnings used in the calculation of earnings per share from continuing operations	6,260	(640)
Earnings for the year from discontinued operations used in the calculation of earnings per share from discontinued operations	–	333
<b>Earnings used in the calculation of basic earnings per share</b>	<b>6,260</b>	<b>(307)</b>



## 9. Earnings per share (continued)

	2017 000	2016 000
<b>Number of shares</b>		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<b>50,683</b>	50,386
Effect of potentially dilutive share options	<b>41</b>	–
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<b>50,724</b>	50,386

## 10. Share-based payment arrangements

### 10.1 Description of share-based payment arrangements

The Group had the following share-based payment arrangements during the year:

#### Save As You Earn (equity-settled)

The Save As You Earn scheme is open to all employees. Options are granted under the scheme at a 15% discount to the mid-market closing price for the three days preceding the grant date and have a three-year vesting period. The options are exercisable for a period of six months after vesting and are not subject to any performance conditions.

#### Performance Share Plan (equity-settled)

The Performance Share Plan is only open to Executive Directors and senior managers. Options are awarded annually under the plan and vest over a period of three years based on specific performance targets. The contractual life of the options is five years.

#### Share Incentive Plan

The Share Incentive Plan is open to all employees, enabling them to purchase shares in the Parent Company out of their pre-tax salary.

Further information on the Group's equity-settled share-based arrangements, including details on individual limits and vesting conditions, can be found in the Directors' remuneration report.

## 10. Share-based payment arrangements (continued)

### 10.2 Measurement of fair values

The fair value of the options issued under equity-settled share-based payment arrangements is calculated using the Black-Scholes option pricing model. Service and non-market performance conditions attached to the options are not taken into account in measuring fair value. Expected volatility is based on the historical share price volatility.

During the year, the inputs used in the measurement of fair values at grant date of the equity-settled share-based payment schemes were as follows:

	2017	2016
Share price at grant date	<b>£2.89</b>	£3.30
Exercise price	<b>£2.40</b>	£2.87
Expected volatility	<b>35.75%</b>	22.19%
Expected life	<b>3 years</b>	3 years
Expected dividend yield	<b>1.73%</b>	1.51%
Risk-free interest rate	<b>0.24%</b>	0.57%
Fair value at grant date	<b>£0.82</b>	£0.64

### 10.3 Reconciliation of outstanding share options

The total number and weighted average exercise prices of share options outstanding were as follows:

	2017		2016	
	Number of options	Weighted average exercise price £	Number of options	Weighted average exercise price £
At 1 April	<b>1,060,016</b>	<b>1.42</b>	630,214	1.46
Exercised	<b>(11,742)</b>	<b>2.56</b>	(118,110)	2.87
Forfeited	<b>(153,785)</b>	<b>2.49</b>	(79,783)	2.36
Granted	<b>685,318</b>	<b>1.34</b>	627,695	1.47
At 31 March	<b>1,579,807</b>	<b>1.27</b>	1,060,016	1.42

The options outstanding at 31 March 2017 had an exercise price in the range of £nil to £4.11 (2016: £nil to £4.11) and a weighted average contractual life of 3.1 years (2016: 3.4 years).

The weighted average share price at the date of exercise for share options exercised in 2017 was £3.12 (2016: £3.09).

The Group recognised total expenses in the year of £0.2 million (2016: £0.2 million) in relation to equity-settled share-based payment transactions.

## 11. Employee benefits

### 11.1 Defined contribution scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently-administered funds.

### 11.2 Defined benefit scheme

The Group also sponsors the Charles Stanley & Co. Limited Retirement Benefits Scheme (the Plan), which is a funded defined benefit arrangement. This is a separate, trustee-administered fund holding the Plan assets to meet long-term pension liabilities of its scheme members.

A full actuarial valuation was carried out as at 13 May 2014 in accordance with the scheme funding requirements of the Pensions Act 2004. The next full actuarial valuation as at 13 May 2017 is currently being undertaken. This is due to be completed in early 2018 and will be reflected in the financial statements for the year ending 31 March 2018.

The funding of the Plan is agreed between the Group and the trustees in line with those requirements. There is a particular requirement to calculate the pension surplus/deficit using prudence, as opposed to best estimate actuarial assumptions.

For the purposes of IAS 19 the actuarial valuation as at 13 May 2014, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 March 2017. Apart from a slight change in the mortality assumptions used, the valuation methodology adopted for this year's disclosures are the same as those used in the prior year.

#### Amounts included in the statement of financial position

	2017 £000	2016 £000
Fair value of plan assets	21,667	26,561
Present valuation of defined benefit obligation	(32,195)	(36,651)
Deficit in scheme	(10,528)	(10,090)
Liability recognised in statement of financial position	(10,528)	(10,090)

The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the Plan using the projected unit credit method. The value calculated in this way is reflected in the liability in the statement of financial position as shown above.

**11. Employee benefits (continued)**

The Group has reviewed the implications of the guidance provided by IFRIC 14 and has concluded that it is not necessary to make any adjustments to the IAS 19 figures in respect of an asset ceiling or Minimum Funding Requirements as at 31 March 2017.

**Reconciliation of opening and closing balances of the present value of the defined benefit obligation**

	2017 £000	2016 £000
Defined benefit obligation at 1 April	36,651	43,865
Current service cost	–	643
Interest expense	1,148	1,317
Contributions by plan participants	–	43
Actuarial losses/(gains) due to scheme experience	180	(486)
Actuarial (losses)/gains due to changes in demographic assumptions	(1,770)	188
Actuarial losses/(gains) due to changes in financial assumptions	5,566	(2,808)
Benefits paid and expenses	(560)	(729)
Past service costs	–	(583)
Liabilities extinguished on settlements	(9,020)	(4,799)
Defined benefit obligation at 31 March	32,195	36,651

**Reconciliation of opening and closing balances of the fair value of plan assets**

	2017 £000	2016 £000
Fair value of assets at 1 April	26,561	30,778
Interest income	803	913
Return on plan assets	2,883	(591)
Contributions by the Group	507	749
Contributions by plan participants	–	43
Benefits paid and expenses	(560)	(729)
Assets distributed on settlements	(8,527)	(4,602)
Fair value of plan assets at 31 March	21,667	26,561

## 11. Employee benefits (continued)

### Defined benefit costs recognised in the income statement

	2017 £000	2016 £000
Current service cost	–	643
Past service cost and gain from settlement	(493)	(780)
Net interest cost	345	404
<b>Total costs</b>	<b>(148)</b>	<b>267</b>

### Defined benefit costs recognised in statement of comprehensive income

	2017 £000	2016 £000
Return on plan assets	2,883	(591)
Experience (loss)/gain arising on the scheme liabilities	(180)	486
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation	1,770	(188)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation	(5,566)	2,808
Adjustment related to previous years	–	–
<b>Total amount recognised in statement of comprehensive income</b>	<b>(1,093)</b>	<b>2,515</b>

### Plan assets

	2017 £000	2016 £000
Equities	13,073	15,385
Bonds	6,086	5,320
Property	970	901
Cash	481	361
Alternatives	1,057	4,594
<b>Total assets</b>	<b>21,667</b>	<b>26,561</b>

The Plan's assets include Charles Stanley Group shares amounting to £0.9 million (2016: £0.7 million). The Plan does not own any other direct investments in Charles Stanley Group or any property occupied by, or other assets used by Charles Stanley Group. Alternatives include hedge funds, infrastructure and renewable energy investments. All of the scheme assets have a quoted market price in an active market with the exception of the trustees' bank account balance.

It is the policy of the trustees and the Group to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the planned investment strategy are documented in the Plan's Statement of Investment Principles.

## 11. Employee benefits (continued)

During the second half of the year, the Plan's Trustees changed the investment management strategy of the scheme's assets. The long-term investment objective is now to achieve self-sufficiency which means achieving a funding level whereby scheme assets grow to the same level as their liabilities. A five stage de-risking flight plan has been adopted to reduce risk gradually over life of the Plan as the scheme nears its objective. Stage 1 of the flight plan, which has involved restructuring the underlying portfolio to increase asset class diversification and building an initial liability hedge of 70% of assets, is substantially complete.

Further details on the assumptions underpinning the valuation are provided below:

### Significant actuarial assumptions

	2017 %	2016 %	2015 %
Inflation – Retail Price Index (RPI)	n/a	n/a	3.10
Inflation – Consumer Price Index (CPI)	2.40	2.20	n/a
Salary increases	n/a	n/a	2.20
Rate of discount	2.60	3.60	3.20
Allowance for pension in payment increases of RPI (or 5% p.a. if less than RPI)	n/a	n/a	3.30
Allowance for pension in payment increases of CPI (or 5% p.a. if less than CPI, minimum 3% p.a.)	3.00	3.00	n/a
Allowance for revaluation of deferred pensions of RPI (or 5% p.a. if less than RPI)	n/a	n/a	3.10
Allowance for revaluation of deferred pensions of CPI (or 5% p.a. if less than CPI)	2.40	2.20	n/a

The mortality assumptions adopted at 31 March 2017 are 100% (2016: 85%) of the standard tables S2PxA, Year of Birth, no age rating for males and females, projected using CMI\_2015 converging to 1.00% p.a. These imply the following life expectancies:

	2017 100% Life expectancy at age 65 (years)	2016 85% Life expectancy at age 65 (years)
Male retiring in current year	22.0	23.2
Female retiring in current year	24.0	25.2
Male retiring in twenty years	23.3	24.5
Female retiring in twenty years	25.5	26.7

### Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% p.a.	Increase by 4.5%
Rate of inflation	Increase of 0.25% p.a.	Increase by 0.6%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 3.5%

## 11. Employee benefits (continued)

The sensitivities shown are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and salary growth. The average duration of the defined benefit obligation at the period ended 31 March 2017 is 18 years.

The Plan typically exposes the Group to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to Plan liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future income statements. This effect would be partially offset by an increase in the value of the Plan's bond holdings, and in qualifying death in service insurance policies that cover the mortality risk. Additionally, caps on inflationary increases are in place to protect the Plan against extreme inflation.

The best estimate of contributions to be paid by the Group to the Plan for the year commencing 1 April 2017 is £0.4 million (2016: £0.4 million).

### 11.3 Employee benefit expenses

The average number of persons employed (including Directors) during the year was 810 (2016: 893).

	Continuing operations		Discontinued operations	
	2017 £000	2016 £000	2017 £000	2016 £000
Staff costs for the Group during the year:				
Wages and salaries	43,038	45,262	–	1,193
Social Security costs	5,371	5,748	–	101
Share-based payments	249	199	–	–
Pension costs:				
Defined contribution plan	3,875	3,790	–	73
Defined benefit plan	(148)	267	–	–
	52,385	55,266	–	1,367

During the prior year, the Board agreed revised interim remuneration arrangements with the Group's investment managers in relation to their variable compensation. Part of the agreement involved changing the bonus calculation to be based on earned revenue rather than billed revenue. This resulted in the Group bringing forward the recognition of bonuses on revenues that were accrued but not yet billed as at 31 March 2016. A one-off additional amount of £1.4 million was included within 2016 wages and salaries from continuing operations in the above table.

## 12. Income taxes

### Tax recognised in the consolidated income statement

	2017 £000	2016 £000
<b>Current taxation</b>		
Current year expense/(credit)	2,283	(135)
Adjustment in respect of prior years	306	(57)
	2,589	(192)
<b>Deferred taxation</b>		
(Credit)/expense for the year	(50)	145
	(50)	145
Total tax expense/(credit) on continuing operations	2,539	(47)

In addition to amounts charged to the income statement, deferred tax of £0.2 million relating to the revaluation of available-for-sale financial assets has been charged directly to equity (2016: £0.1 million credit).

Current tax of £0.1 million has been credited directly to equity (2016: £nil) and deferred tax of £0.02 million has also been credited directly to equity (2016: £0.8 million charge) in respect of the defined benefit plan.

The deferred tax asset at 31 March 2017 has been calculated based on the UK corporation tax rate of 17%, as this was substantively enacted at the balance sheet date.

The tax charge for the year is higher than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are as follows:

	2017 £000	2016 £000
Profit/(loss) before tax from continuing operations	8,799	(687)
Profit/(loss) multiplied by rate of corporation tax in the UK of 20% (2016: 20%)	1,760	(137)
Tax effects of:		
Income not subject to tax	(37)	(31)
Expenses not allowed for tax	40	89
Share-based payments	31	71
Adjustments in respect of prior years	306	57
Intangible asset amortisation and impairments	8	(6)
Fixed assets differences	468	(154)
Disposal of business	(63)	–
Change in tax rate	38	89
Other adjustments	(12)	(25)
	779	90
Total tax expense/(credit) for the year	2,539	(47)



### 13. Assets and liabilities held for sale

The Group announced the sale of EBS Management PLC to Embark Group Limited on 11 April 2017. Accordingly, the assets and liabilities of EBS Management PLC have been presented in the consolidated statement of financial position as held for sale. Further information on the terms of the disposal are included in note 31.

The Group completed the disposal of Charles Stanley Financial Solutions Limited on 1 April 2016. In the previous financial year, the assets and liabilities of Charles Stanley Financial Solutions Limited were presented in the consolidated statement of financial position as held for sale.

The following table sets out the assets and liabilities held for sale in the current and prior year:

	2017 £000	2016 £000
Intangible assets	1,294	1,145
Trade and other receivables	1,343	257
Cash and cash equivalents	6,328	320
<b>Assets held for sale</b>	<b>8,965</b>	<b>1,722</b>
Trade and other payables	1,558	35
Current tax liabilities	9	–
<b>Liabilities held for sale</b>	<b>1,567</b>	<b>35</b>

### 14. Intangible assets

Cost	Goodwill £000	Customer relationships £000	Internally generated software £000	Total £000
At 1 April 2015	21,507	22,769	4,167	48,443
Additions	–	624	1,921	2,545
At 31 March 2016	21,507	23,393	6,088	50,988
Additions	–	32	1,057	1,089
Transfer to held for sale	(1,294)	–	–	(1,294)
At 31 March 2017	20,213	23,425	7,145	50,783
<b>Amortisation</b>				
At 1 April 2015	5,511	15,498	1,337	22,346
Charge for the year	–	1,635	1,607	3,242
At 31 March 2016	5,511	17,133	2,944	25,588
Charge for the year	–	1,556	1,769	3,325
Impairment	650	–	–	650
At 31 March 2017	6,161	18,689	4,713	29,563
<b>Net book value</b>				
<b>At 31 March 2017</b>	<b>14,052</b>	<b>4,736</b>	<b>2,432</b>	<b>21,220</b>
At 31 March 2016	15,996	6,260	3,144	25,400

None of the intangible assets have been pledged as security.

## 14. Intangible assets (continued)

Goodwill is allocated to the Group's operating divisions as follows:

Goodwill	2017 £000	2016 £000
Investment Management Services	8,805	10,449
Financial Planning	–	300
Charles Stanley Direct	5,247	5,247
	<b>14,052</b>	<b>15,996</b>

### 14.1 Goodwill

The recoverable amount of goodwill allocated to a CGU is determined initially by calculating the CGU's fair value less costs to sell. If this is lower than the carrying amount or is not determinable, a value in use calculation is also prepared.

Fair value less costs to sell is calculated largely based on a percentage of FuMA. Where this approach is not appropriate, a turnover multiple is used.

The rates used in the fair value less costs to sell calculations are those implied by recent transactions in the market or, where appropriate, based on publicly available information for similar quoted businesses. When calculating the fair value less costs to sell, key assumptions are stress tested to determine whether the calculations are sensitive to reasonable potential changes in these assumptions.

At 31 March 2017, fair value less costs to sell was deemed to be higher than carrying value for each CGU. Therefore, no value in use calculations have been prepared.

#### 14.1.1 Investment Management Services

The recoverable amount of goodwill related to Investment Management Services was assessed using fair value less costs to sell for the year ended 31 March 2017. The fair value was determined based on a percentage of FuMA. During the year, the Group recognised an impairment charge of £0.3 million in respect of goodwill attributable to a regional office which provided investment management services. In addition, goodwill of £1.3 million in respect of EBS Management PLC was transferred to assets held for sale at the reporting date. Consequently, the goodwill balance carried forward was £8.8 million.

#### 14.1.2 Financial Planning

The recoverable amount of goodwill relating to Financial Planning was assessed using fair value less costs to sell for the year ended 31 March 2017. The brought forward balance of £0.3 million was fully impaired during the year as the business activities to which it related are no longer undertaken.

#### 14.1.3 Charles Stanley Direct

The recoverable amount of goodwill relating to Charles Stanley Direct was assessed using fair value less costs to sell for the year ended 31 March 2017. The recoverable amount was determined to be higher than the carrying amount of the CGU and therefore the goodwill carrying value is adequately supported.

### 14.2 Customer relationships

Purchases of customer relationships relate to payments made to investment managers and third parties for the introduction of customer relationships.

### 14.3 Internally generated software

Internally generated software is software designed, developed and commercialised by the Group.

## 15. Property, plant and equipment

Cost	Freehold premises £000	Long leasehold premises £000	Short leasehold premises £000	Office equipment and motor vehicles £000	Total £000
At 1 April 2015	4,988	1,021	7,899	16,862	30,770
Additions	25	–	11	443	479
Disposals	–	–	(431)	(93)	(524)
<b>At 31 March 2016</b>	<b>5,013</b>	<b>1,021</b>	<b>7,479</b>	<b>17,212</b>	<b>30,725</b>
<b>Additions</b>	<b>–</b>	<b>–</b>	<b>2,563</b>	<b>999</b>	<b>3,562</b>
<b>Disposals</b>	<b>–</b>	<b>(1,021)</b>	<b>(4,162)</b>	<b>(454)</b>	<b>(5,637)</b>
<b>At 31 March 2017</b>	<b>5,013</b>	<b>–</b>	<b>5,880</b>	<b>17,757</b>	<b>28,650</b>
<b>Depreciation</b>					
At 31 April 2015	250	308	4,021	12,904	17,483
Charge for the year	130	73	789	1,904	2,896
Disposals	–	–	(306)	(80)	(386)
<b>At 31 March 2016</b>	<b>380</b>	<b>381</b>	<b>4,504</b>	<b>14,728</b>	<b>19,993</b>
<b>Charge for the year</b>	<b>130</b>	<b>36</b>	<b>554</b>	<b>1,392</b>	<b>2,112</b>
<b>Disposals</b>	<b>–</b>	<b>(417)</b>	<b>(2,777)</b>	<b>(237)</b>	<b>(3,431)</b>
<b>At 31 March 2017</b>	<b>510</b>	<b>–</b>	<b>2,281</b>	<b>15,883</b>	<b>18,674</b>
<b>Net book value</b>					
<b>At 31 March 2017</b>	<b>4,503</b>	<b>–</b>	<b>3,599</b>	<b>1,874</b>	<b>9,976</b>
At 31 March 2016	4,633	640	2,975	2,484	10,732

Freehold premises is carried at revalued amount. The most recent valuations of freehold premises were carried out in March 2014 by independent chartered surveyors. If freehold premises had been carried under the cost model, its carrying value would have been £4.6 million (2016: £4.7 million).

During the year, the Group moved its London-based staff from multiple offices to new leasehold premises at 55 Bishopsgate. The Group surrendered the remaining lease on one of its former long leasehold premises to the building's landlord for £5.6 million. The carrying value of the leasehold premises was negligible, therefore a gain of £5.6 million on the lease disposal has been recognised in the consolidated income statement.

Assets with a carrying value of £2.2 million were disposed of in the year due to the Group's head office relocation. There were no disposal proceeds in respect of these assets, therefore a loss on disposal of £2.2 million has been recognised in the consolidated income statement.

Included in the short leasehold additions for the year is an amount of £1.0 million in respect of a dilapidations obligation arising under the lease at 55 Bishopsgate, which has been capitalised as part of the fit out costs in accordance with IAS 16. In the half year results to 30 September 2016, these dilapidation costs had been expensed to the income statement.

The cost and accumulated depreciation of property, plant and equipment in the above table includes £13.2 million (2016: £11.1 million) in respect of fully depreciated assets of which are still in use.

## 16. Net deferred tax asset

	Employee benefits £000	Share-based payments £000	Deferred capital allowances £000	Tax losses forward and other timing differences £000	Total £000
<b>Deferred tax assets</b>					
At 1 April 2015	2,617	60	334	240	3,251
Recognised in profit or loss					
Current year	(43)	(59)	291	–	189
Change in rate	(5)	–	(62)	–	(67)
	(48)	(59)	229	–	122
<b>Recognised in other comprehensive income</b>					
Current year	(557)	–	–	–	(557)
Change in rate	(196)	–	–	–	(196)
	(753)	–	–	–	(753)
<b>At 31 March 2016</b>	<b>1,816</b>	<b>1</b>	<b>563</b>	<b>240</b>	<b>2,620</b>
<b>Recognised in profit or loss</b>					
Current year	(8)	17	64	–	73
Change in rate	1	–	(34)	–	(33)
	(7)	17	30	–	40
<b>Recognised in other comprehensive income</b>					
Current year	86	–	–	–	86
Change in rate	(105)	–	–	–	(105)
	(19)	–	–	–	(19)
<b>At 31 March 2017</b>	<b>1,790</b>	<b>18</b>	<b>593</b>	<b>240</b>	<b>2,641</b>

## 16. Net deferred tax asset (continued)

	Intangible assets £000	Property, plant and equipment £000	Available- for-sale financial assets £000	Total £000
<b>Deferred tax liabilities</b>				
At 1 April 2015	(114)	(7)	(572)	(693)
Recognised in profit or loss				
Current year	45	–	–	45
Change in rate	(21)	–	–	(21)
	24	–	–	24
<b>Recognised in other comprehensive income</b>				
Current year	–	1	37	38
Change in rate	–	–	53	53
	–	1	90	91
<b>At 31 March 2016</b>	<b>(90)</b>	<b>(6)</b>	<b>(482)</b>	<b>(578)</b>
<b>Recognised in profit or loss</b>				
Current year	15	–	–	15
Change in rate	(5)	–	–	(5)
	10	–	–	10
<b>Recognised in other comprehensive income</b>				
Current year	–	–	(234)	(234)
Change in rate	–	–	39	39
	–	–	(195)	(195)
<b>At 31 March 2017</b>	<b>(80)</b>	<b>(6)</b>	<b>(677)</b>	<b>(763)</b>
<b>Net deferred tax assets</b>				
<b>At 31 March 2017</b>				<b>1,878</b>
At 31 March 2016				2,042

The Finance Bill 2016 gained royal assent on 15 September 2016. It included provisions for the UK corporation tax rate to be reduced from 19% in April 2017 to 17% in April 2020. Deferred tax balances have therefore been calculated based on these reduced rates where timing differences are forecast to unwind in future years.

## 17. Available-for-sale financial assets

Fair value	Listed investments £000	Unlisted investments £000	Total £000
At 1 April 2015	3,785	3,269	7,054
Additions	327	–	327
Disposals	(223)	(60)	(283)
Revaluation in year	(129)	–	(129)
<b>At 31 March 2016</b>	<b>3,760</b>	<b>3,209</b>	<b>6,969</b>
<b>Additions</b>	<b>1,342</b>	<b>500</b>	<b>1,842</b>
<b>Disposals</b>	<b>(1,517)</b>	<b>(125)</b>	<b>(1,642)</b>
<b>Revaluation in year</b>	<b>(39)</b>	<b>946</b>	<b>907</b>
<b>At 31 March 2017</b>	<b>3,546</b>	<b>4,530</b>	<b>8,076</b>

Available-for sale financial assets were split between current and non-current assets as shown below:

Current	2017 £000	2016 £000
Unlisted investments	2,450	–
	2,450	–
<b>Non-current</b>		
Listed investments	3,546	3,760
Unlisted investments	2,080	3,209
	5,626	6,969

The fair value of listed investments is determined by reference to quoted prices on active markets.

Listed investments include a £2.0 million (2016: £2.0 million) holding in gilts which is pledged to the Group's clearing house.

Unlisted investments include the Group's holding of 6,030 shares in Euroclear PLC. The board of Euroclear PLC announced a share buyback to its shareholders on 8 March 2017, to be carried out by way of a reverse auction in April 2017. The Group submitted an offer deed on 5 April 2017 to sell its entire holding at €774 per share. On 28 April 2017, the Board were notified that the Group's tender had been partially successful, with a total of 3,672 shares to be bought back by Euroclear PLC. As such, the full holding was revalued to €774 per share as at 31 March 2017 and translated into GBP at the rate of exchange on the balance sheet date. The value of the shares to be sold after the balance sheet date has been presented within current assets and the value of the unsold shares has been presented in non-current assets.

Also within unlisted investments is the Group's investment in a technology company called Runpath Group Limited. The initial investment was £1.0 million (£0.5 million in 119,154 ordinary shares and £0.5 million of convertible loan notes). As at 31 March 2016, the Group held the equity at £nil and the loan notes at £0.3 million. During the year, the Group converted the loans into equity and subsequently disposed of 25% of its enlarged holding, recognising a gain of £0.4 million. The remainder of the equity investment is carried at fair value as determined by the Directors.

## 18. Trade and other receivables

	2017 £000	2016 £000
<b>Current</b>		
Trade receivables	137,736	135,143
Other receivables	3,217	8,358
Prepayments and accrued income	3,720	2,863
	144,673	146,364
<b>Non-current</b>		
Convertible loan	–	250
	–	250

Included within trade and other receivables is the deferred consideration balance receivable by the Group in relation to the sale of Charles Stanley Financial Solutions Limited (CSFS) to CS Financial Solutions Holdings Limited on 1 April 2016, net of provision for impairment. The deferred consideration of £0.5 million LIBOR plus 2% Secured B Loan Notes 2019 is repayable in three equal instalments on each anniversary following the sale. At 31 March 2017, the balance of the loan receivable had been impaired in full as Management believes that its recoverability is doubtful. A breakdown of the deferred consideration and provision for impairment in respect of the sale of CSFS is presented below:

	2017 £000	2016 £000
<b>Current</b>		
Deferred consideration	167	–
Provision for impairment	(167)	–
	–	–
<b>Non-current</b>		
Deferred consideration	333	–
Provision for impairment	(333)	–
	–	–

## 19. Financial assets at fair value through profit and loss

	2017 £000	2016 £000
<b>Current</b>		
Listed investments	73	72

## 20. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	52,101	48,095

In addition to the amounts presented above, £6.3 million of cash and cash equivalents (2016: £0.3 million) is also included within assets held for sale. Total cash and cash equivalents at the reporting date were therefore £58.4 million (2016: £48.4 million).

## 21. Capital and reserves

	Number of shares 000	Ordinary shares £000	Share premium £000	Merger relief reserve £000	Total £000
Authorised shares with a par value of 25p each	80,000	20,000	–	–	20,000
Allotted and fully paid:					
At 1 April 2015	45,963	11,490	4,139	–	15,629
Exercise of share options	118	30	263	–	293
Issue of ordinary shares	4,596	1,149	–	15,167	16,316
<b>At 31 March 2016</b>	<b>50,677</b>	<b>12,669</b>	<b>4,402</b>	<b>15,167</b>	<b>32,238</b>
<b>Exercise of share options</b>	<b>12</b>	<b>3</b>	<b>27</b>	<b>–</b>	<b>30</b>
<b>At 31 March 2017</b>	<b>50,689</b>	<b>12,672</b>	<b>4,429</b>	<b>15,167</b>	<b>32,268</b>

### 21.1 Ordinary shares

The rights and obligations attached to the Parent Company's ordinary shares are set out in the Directors' report (page 89).

During the year 12,000 ordinary shares were issued fully paid for cash at an average price of £2.56 per share following the exercise of options by employees. These shares had a nominal value of £3,000 and a total consideration was £30,000.

### 21.2 Merger relief reserve

The merger relief reserve is used where more than 90% of the share capital in a subsidiary is acquired and the consideration includes the issue of new shares by the Group, thereby attracting merger relief under Section 612 of Companies Act 2006.

The merger relief reserve arose on a placing of the Group's shares and forms part of distributable reserves.

### 21.3 Dividends

The following dividends were declared and paid by the Parent Company in the year:

	2017 £000	2016 £000
Final dividend paid for 2016: 3.50p per share (2015: 2.00p)	1,774	996
Interim dividend paid for 2017: 1.50p per share (2016: 1.50p)	760	758
	<b>2,534</b>	1,754



## 22. Provisions

	2017 £000	2016 £000
<b>Non-current</b>		
At 1 April	–	–
Provisions made during the year	1,108	–
<b>At 31 March</b>	<b>1,108</b>	<b>–</b>
<b>Current</b>		
At 1 April	4,367	2,664
Provisions made during the year	237	1,703
Provisions used during the year	(2,442)	–
<b>At 31 March</b>	<b>2,162</b>	<b>4,367</b>

The Group held provisions as at 31 March 2017 in respect of certain legal claims and leasehold property dilapidations. The non-current additions in the year of £1.1 million are in respect of dilapidations expected to arise in connection with the Group's new leasehold premises at 55 Bishopsgate, London.

## 23. Trade and other payables

	2017 £000	2016 £000
Trade and other payables	121,966	126,149
Other taxes and Social Security costs	3,263	2,860
Other payables	6,783	9,545
Accruals and deferred income	9,497	3,329
	<b>141,509</b>	<b>141,883</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

## 24. Fair values and risk management

Through its normal operations the Group is exposed to a number of risks. The most significant financial instrument risks are market risk, credit risk and liquidity risk. Information is presented below regarding the exposure to each of these risks and the procedures for measuring and managing them.

### 24.1 Market risk

This is the risk that the Group's income or value of its financial instruments are impacted by fluctuations in market prices, such as equity prices, foreign exchange rates and interest rates.

The Group does not undertake any proprietary trading other than in respect of its own equity holdings and positions arising from incidental dealing errors.

All position limits are monitored daily in accordance with policies determined by the Board.

The Group has small currency exposures. Positions are held in a variety of currencies, principally the US dollar, to support clients' dealing activities.

## 24. Fair values and risk management (continued)

### 24.1.1 Equity risk

The Group is exposed to equity market risk through its own equity holdings. These comprise:

- i) available-for-sale financial investments
- ii) held for trading assets and liabilities.

Equity price movements in respect of the Group's client holdings have a direct impact on investment management fees received.

The Group has performed sensitivity analysis assessing the impact of a 10% increase or decrease in underlying equity prices. The results shown below are indicative of the impact at the year-end.

#### 24.1.1.1 Available-for-sale investments

Note 17 summarises the available-for-sale investments held at the year-end date, and the disposals and fair value movements made in the year.

56% of the Group's available-for-sale investments are unlisted. A 10% increase or decrease in the Group's investments would have an impact on reserves of £0.8 million (2016: £0.7 million).

#### 24.1.1.2 Held for trading assets and liabilities

The Group's exposure to market risk on its held for trading positions is monitored daily and reported to the appropriate Directors and senior managers. Positions are monitored against limits determined by the Risk Committee. Any breaches of the limits are notified immediately to the Head of Compliance.

A 10% increase or decrease in equity prices of trading assets and liabilities would increase/reduce profit in the consolidated income statement by £7,000 (2016: £7,000).

#### 24.1.1.3 Investment Management Services fees

A 10% increase or decrease in equity prices would increase/reduce investment management fees in the consolidated income statement by £4.7 million (2016: £4.0 million).

### 24.1.2 Foreign exchange risk

The table below summarises the Group's foreign currency exposure arising from unmatched monetary assets or liabilities not denominated in the Group's functional currency:

Net assets	2017 £000	2016 £000
Euros	–	190
US dollars	29	619
Other currencies	30	31
	59	840

The Group's activities are denominated primarily in GBP and it does not enter into forward exchange contracts for hedging anticipated transactions. The risk of adverse currency movements for settlement of non-GBP trades on behalf of clients is not borne by the Group. The Group is exposed to currency risk for settlement of non-GBP trade suppliers and miscellaneous income streams. At 31 March 2017 these totalled £16,000 (2016: £22,000).

### 24.1.3 Interest rate risk

The Group holds interest-bearing assets, principally cash and cash deposits, available-for-sale financial assets and loan notes accruing interest at fixed rates. The Group views such exposure to interest rate fluctuations as immaterial. If interest rates had been 200 basis points higher, profit for the year would have been £1.2 million higher (2016: £1.1 million). If interest rates had been 200 basis points lower, profit for the year would have been £0.2 million lower (2016: £0.1 million).

## 24. Fair values and risk management (continued)

### 24.2 Credit risk

This represents the risk of loss through default by a counterparty. The most significant risk to the Group is either a client or market counterparty failing to settle a trade. Given the wide range of retail clients of the Group it is not considered that a material default by connected counterparties would arise. Other credit risks, such as free delivery of stock or cash, are not deemed to be significant as the Group has an effective credit control department to recover any monies or stock owed through default.

The Group monitors both the collateral requirements of individual client accounts, as well as any debit balances that occur if stock purchases are not settled on due date, or that are due to losses that have been incurred during client trading activity, on a daily basis.

Shares are only delivered free of payment to a client or their agent once settlement has been achieved and there is no outstanding debit balance on the account. In the event of an error, it will again be made immediately apparent the next day when both the debit balances and collateral requirements of clients' accounts are monitored.

On occasion, delivery of stock to a recognised professional counterparty may take place free of payment via an electronic settlement system, but only on prior confirmation from their custodian that the required funds in settlement will be transferred directly to the Group's bank account. There have been no historic instances where this has created an irrecoverable loss.

Exposures for trades that are outstanding beyond the contractual settlement date are monitored on a daily basis.

The Group has a Market Exposure Committee (MEC) which reviews exposures to market counterparties on a daily basis. The Committee also sets exposure limits in respect of individual market counterparties.

Trade receivables represent monies due from clients and market counterparties. The Risk department undertakes reviews of new accounts and periodically reviews all counterparties.

Cash and cash equivalents are held with regulated financial institutions with investment grade credit ratings. The list of approved banks is reviewed at least annually by the Treasury Committee. The Group has no concerns over the credit quality of these institutions.

An ageing analysis of the Group's financial assets is presented in the following table:

At 31 March 2017	Past due but not impaired					Carrying value £000
	Neither due nor impaired £000	0–3 months £000	3–6 months £000	6–12 months £000	Over 1 year £000	
Trade and other receivables	3,720	140,953	–	–	–	144,673
Cash and cash equivalents	52,101	–	–	–	–	52,101

At 31 March 2016						
Trade and other receivables	2,863	143,481	20	–	–	146,364
Cash and cash equivalents	48,095	–	–	–	–	48,095

Excluded from the above table are receivables of £0.2 million (2016: £0.3 million) for which provision of £0.2 million has been made (2016: £0.3 million).

## 24. Fair values and risk management (continued)

### 24.3 Liquidity risk

This is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group maintains a mixture of cash and cash equivalents that are designed to meet the Group's operational and trading activities. The Group does not use the wholesale markets for any funding and is confident that it has sufficient liquidity for the foreseeable future. At 31 March 2017 the Group had £58.4 million in bank accounts (£52.1 million included in cash and cash equivalents and £6.3 million included in assets held for sale) and accordingly a high degree of liquidity.

The Group's liquidity risk is overwhelmingly short-term in nature and arises from the settlement of trades within the stockbroking business.

The Treasury Committee operates within strict policies and procedures approved by the Board, which include strict controls on the use of financial instruments in managing the Group's risk. It is the Group's policy to hold cash resources to meet obligations as and when they fall due.

The Group's financial instruments comprise cash and liquid resources, and various items including trade receivables and trade payables that arise directly from its operations. The Group reviews the credit quality of counterparties and limits its aggregate credit exposures accordingly.

The majority of the short-term liabilities arise from the settlement of clients' trading activities and it is the policy to pay stockbroking creditors on Settlement Day or when the stock is delivered, whichever is later. The Group's policy is also to pay suppliers in accordance with their payment terms.

The Group's financial liabilities comprise trade and other payables and financial liabilities which are all repayable on demand or within three months.

## 24. Fair values and risk management (continued)

### 24.3.1 Fair value of financial instruments

#### 24.3.1.1 Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

Carrying amount	Note	Held for trading £000	Loans and receivables £000	Available-for-sale £000	Other financial liabilities £000	Total £000
<b>At 31 March 2017</b>						
Financial assets measured at fair value – available-for-sale investments	17	–	–	8,076	–	8,076
Financial assets at fair value through profit and loss – listed investments	19	73	–	–	–	73
<b>Total</b>		<b>73</b>	<b>–</b>	<b>8,076</b>	<b>–</b>	<b>8,149</b>
<b>Financial assets not measured at fair value</b>						
Trade and other receivables	18	–	144,673	–	–	144,673
Cash and cash equivalents	20	–	52,101	–	–	52,101
<b>Total</b>		<b>–</b>	<b>196,774</b>	<b>–</b>	<b>–</b>	<b>196,774</b>
<b>Financial liabilities not measured at fair value</b>						
Trade and other payables	23	–	–	–	141,509	141,509
<b>Total</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>141,509</b>	<b>141,509</b>
<b>Fair value</b>						
	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000	
<b>At 31 March 2017</b>						
Financial assets measured at fair value – available-for-sale investments	17	3,546	–	4,530	8,076	
Financial assets at fair value through profit and loss – listed investments	19	73	–	–	73	
<b>Total</b>		<b>3,619</b>	<b>–</b>	<b>4,530</b>	<b>8,149</b>	

## 24. Fair values and risk management (continued)

	Note	Held for trading £000	Loans and receivables £000	Available-for-sale £000	Other financial liabilities £000	Total £000
At 31 March 2016						
Financial assets measured at fair value – available-for-sale investments	17	–	–	6,969	–	6,969
Financial assets at fair value through profit and loss – listed investments	19	72	–	–	–	72
<b>Total</b>		<b>72</b>	<b>–</b>	<b>6,969</b>	<b>–</b>	<b>7,041</b>
Financial assets not measured at fair value						
Trade and other receivables	18	–	146,364	–	–	146,364
Cash and cash equivalents	20	–	48,095	–	–	48,095
<b>Total</b>		<b>–</b>	<b>194,459</b>	<b>–</b>	<b>–</b>	<b>194,459</b>
Financial liabilities not measured at fair value						
Trade and other payables	23	–	–	–	141,883	141,883
<b>Total</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>141,883</b>	<b>141,883</b>

<b>Fair value</b>	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 March 2016					
Financial assets measured at fair value – available-for-sale investments	17	3,760	–	3,209	6,969
Financial assets at fair value through profit and loss – listed investments	19	72	–	–	72
<b>Total</b>		<b>3,832</b>	<b>–</b>	<b>3,209</b>	<b>7,041</b>

## 24.3.1.2 Measurement of fair values

## i) Valuation techniques and significant unobservable inputs

**Financial instruments measured at fair value**

Fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for assets that are not based on observable market data (that is, unobservable inputs).

## 24. Fair values and risk management (continued)

The following table shows the valuation techniques used in measuring Level 3 fair values for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used:

Financial Instrument	Valuation technique	Significant unobservable inputs	Interrelationship between significant unobservable inputs and fair value
Equity Securities: Euroclear	Fair value is determined using PE and net asset multiples	Earnings assumed to remain relatively stable based on historic performance	Fair value may be higher if the forecast forward earnings of Euroclear increases, and vice versa
		Discount applied to reflect illiquid market for the shares	The value of the shares may increase if the market for the shares becomes more liquid

There were no transfers between any of the levels of the fair value hierarchy during the year ended 31 March 2017 or in the prior year.

### ii) Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	Equity securities available-for-sale £000
At 1 April 2016	3,209
Reversal of impairment	500
Disposals	(125)
Total unrealised gains and losses for the year included in consolidated statement of comprehensive income	946
<b>At 31 March 2017</b>	<b>4,530</b>

The Group has an established control framework with respect to the measurement of fair values. If one or more significant inputs are not based on observable market data, the instrument is included in Level 3. Recognised techniques are used to value the financial instruments grouped under Level 3, including discounted future cash flow and dividend yield valuation methods. All valuations performed are presented to the Group Executive Directors for final approval. Significant valuation issues are reported to the Group Audit Committee.

### 24.3.2 Equity securities – available-for-sale

The Level 3 balance relates to holdings in unlisted investments. At 31 March 2017 these unlisted investments had a fair value of £4.5 million (31 March 2016: £3.2 million). Included within this balance is the Group's holding of 6,030 shares in Euroclear PLC which had a fair value of £4.0 million (31 March 2016: £3.1 million). Fair value was determined using a valuation technique that required significant unobservable inputs.

## 25. List of subsidiaries

Details of the Group's subsidiaries at the reporting date are listed below. The registered office of all Group companies is 55 Bishopsgate, London, UK, EC2N 3AS.

Name of company	Activity	Note	Country of incorporation	Ordinary shares
Alpha Trustees Limited	Dormant	4	England & Wales	100%
Charles Stanley & Co. Limited	Wealth managers	1, 2	England & Wales	100%
Charles Stanley Pan Asset Capital Management Limited	Wealth managers	2	England & Wales	100%
EBS Management PLC	Pension Fund Administrator	2, 4	England & Wales	100%
EBS Pensioneer Trustees Limited	Pensioneer Trustee Services	4	England & Wales	100%
EBS Self-Administered Personal Pension Plan Trustees Limited	Pensioneer Trustee Services	4	England & Wales	100%
Exempt Nominees Limited	Nominee company	3	England & Wales	100%
Charles Stanley Investment Choices Limited (formerly Garrison Investment Analysis Limited)	Financial Intermediary	2	England & Wales	100%
Gryphon Investments Limited	Investment company		England & Wales	98%
Jobson James Financial Services Limited	Dormant	2	England & Wales	100%
Rock (Nominees) Limited	Nominee company	3	England & Wales	100%

### Notes

1 Member of The London Stock Exchange

2 Regulated by the Financial Conduct Authority

3 Shares held by Charles Stanley & Co. Limited

4 EBS Management PLC and a number of related non-trading subsidiaries were disposed of on 31 May 2017



## 26. Involvement with unconsolidated structured entities

The Group holds fund management contracts over various investment funds (all open-ended investment companies), acting as an agent on behalf of the Authorised Corporate Director. These investment funds invest capital received from investors in a portfolio of assets in order to provide returns to those investors from capital appreciation of those assets, income from those assets or both. The investment funds are financed through the issue of units to the investors. The Group's objective is to generate fees from managing assets on behalf of third parties.

The net assets of each fund are detailed below:

	2017 £m	2016 £m
FP Matterley Regular High Income Fund	62.6	63.4
FP Matterley Equity Fund	10.8	10.1
FP Matterley UK & International Growth Portfolio Fund	116.9	99.4
FP Matterley Undervalued Fund	–	0.1
PanDYNAMIC Defensive	19.1	5.8
PanDYNAMIC Balanced	9.5	18.8
The MOTIM Fund	13.2	11.3
The Helm Investment Fund	8.3	7.0
<b>Total</b>	<b>240.4</b>	<b>215.9</b>

Included in the consolidated statement of financial position is accrued income of £0.2 million (2016: £0.5 million) relating to fees recognised which have not yet been received. This represents the Group's maximum exposure to loss from the funds.

The following table presents the Group's total income from unconsolidated structured entities in the consolidated income statement:

	2017 £000	2016 £000
FP Matterley Regular High Income Fund	486	585
FP Matterley Equity Fund	79	98
FP Matterley International Growth Fund	–	54
FP Matterley UK & International Growth Portfolio Fund	1,101	1,111
FP Matterley Bond Fund	–	10
The MOTIM Fund	61	60
The Helm Investment Fund	22	26
<b>Total</b>	<b>1,749</b>	<b>1,944</b>

All the above income relates to the annual management charge.

**27. Reconciliation of net profit/(loss) to cash generated from operations**

	2017 £000	2016 £000
Profit/(loss) before tax	8,799	(272)
Adjustments for:		
Depreciation	2,112	2,896
Amortisation of intangible assets	3,325	3,242
Impairment of intangible assets	650	465
Impairment of corporate loans	500	–
Gain on surrender of long-term lease	(5,550)	–
Share-based payments – value of employee services	249	199
Retirement benefit scheme	(655)	(480)
Dividend income	(186)	(152)
Interest income	(195)	(136)
Interest expense	63	36
Loss on disposal of property, plant and equipment	2,199	131
Gain on disposal of business	(148)	(99)
Changes in working capital:		
(Increase)/decrease in financial assets at fair value through profit or loss	(1)	28
Decrease in receivables	467	103,357
Decrease in payables	(941)	(100,549)
Net cash inflow from operations	10,688	8,666

**28. Operating leases**

The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. Total commitments under these leases at the reporting date were:

	2017 £000	2016 £000
Not later than one year	3,473	4,976
Later than one year but not later than five years	11,917	14,170
Later than five years	4,809	6,798
	20,199	25,944

## 29. Contingent liabilities

Following the recent rulings under the European Working Time Directive, 'normal pay' for the purposes of calculating statutory holiday pay should include contractual commission in addition to basic salary. Based on the current available information, the advice received to date and the nature of the Group's activities, the Working Time Directive is not expected to have a material impact on the Group. However, if the actual impact of these rulings is different to current expectations, the Group may be exposed to an additional material liability.

In the normal course of business, the Group is exposed to certain legal and tax issues which could, in the event of a dispute, develop into litigious proceedings and in some cases may result in contingent liabilities. During the year, the Group has not become engaged or involved in, or otherwise subject to, any litigation which has resulted in liabilities crystallising.

## 30. Commitments

At 31 March 2017, capital expenditure authorised and contracted for, but not included in the financial statements, amounted to £nil (2016: £nil).

## 31. Subsequent events

The Group announced the sale of EBS Management PLC to Embark Group Limited on 11 April 2017. The sale completed on 31 May 2017 for total consideration of up to £4.0 million. The consideration is to be satisfied by the payment of £2.0 million in cash on completion, £1.0 million of fixed deferred consideration and £1.0 million of contingent deferred consideration. 50% of each element of deferred consideration is payable one year after completion, with the remaining balance due two years after completion.

On 28 April 2017 the Group was notified that it had been successful in tendering 3,672 shares in Euroclear PLC for total consideration of €2.8 million. At the balance sheet date, this holding was presented as available-for-sale assets within current assets. The remaining shares in Euroclear PLC held by the Group were included within non-current assets at the reporting date. Further information on this disposal can be found in note 17.

## 32. Related parties

Transactions between the Parent Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

### 32.1 Transactions with related parties

With the exception of the transactions detailed below, the Group did not enter into any transactions with related parties who are not members of the Group during the year.

### 32.2 Remuneration of Key Management Personnel

Key Management Personnel has been determined as being the Directors and Executive Committee members (2016: Directors only). The compensation paid to Key Management Personnel is detailed below:

	2017 £000	2016 £000
Salaries and short-term employee benefits	2,162	1,695
Post-employment benefits	237	262
Share-based payments	155	–
Social Security costs	280	246
	<b>2,834</b>	<b>2,203</b>

# Parent Company statement of financial position

As at 31 March 2017

Assets	Notes	2017 £000	2016 £000
Intangible assets	34	10,260	12,168
Net deferred tax assets	35	42	11
Available-for-sale financial assets	36	1,515	1,451
Investments in subsidiaries	37	38,178	39,414
<b>Non-current assets</b>		<b>49,995</b>	<b>53,044</b>
Trade and other receivables	39	1,304	1,531
Current tax assets		503	–
Assets held for sale	38	1,533	716
Cash and cash equivalents	40	1,090	355
<b>Current assets</b>		<b>4,430</b>	<b>2,602</b>
<b>Total assets</b>		<b>54,425</b>	<b>55,646</b>
<b>Equity</b>			
Share capital	21	12,672	12,669
Share premium	21	4,429	4,402
Revaluation reserve		205	190
Merger relief reserve	21	15,167	15,167
Retained earnings		5,090	8,229
<b>Total equity</b>		<b>37,563</b>	<b>40,657</b>
Trade and other payables	41	16,862	14,662
Current tax liabilities		–	327
<b>Current liabilities</b>		<b>16,862</b>	<b>14,989</b>
<b>Total liabilities</b>		<b>16,862</b>	<b>14,989</b>
<b>Total equity and liabilities</b>		<b>54,425</b>	<b>55,646</b>

Approved by the Board on 13 June 2017 and signed on its behalf by:

Paul Abberley (Director)

Ben Money-Coutts (Director)

Company registration number 48796 (England and Wales)

The notes on pages 149 to 153 are an integral part of these Parent Company financial statements.

# Parent Company statement of changes in equity

Year ended 31 March 2017

	Share capital £000	Share premium £000	Revaluation reserve £000	Merger relief reserve £000	Retained earnings £000	Total £000
At 1 April 2015	11,490	4,139	281	–	11,022	26,932
Loss for the year	–	–	–	–	(1,236)	(1,236)
Other comprehensive income:						
Losses on available-for-sale financial assets	–	–	(123)	–	–	(123)
Deferred tax on available-for-sale financial assets	–	–	32	–	–	32
Total other comprehensive income for the year	–	–	(91)	–	–	(91)
Total comprehensive income for the year	–	–	(91)	–	(1,236)	(1,327)
Dividends paid	–	–	–	–	(1,754)	(1,754)
Share-based payments:						
– value of employee services	–	–	–	–	197	197
– issue of shares	30	263	–	–	–	293
Issue of ordinary shares	1,149	–	–	15,167	–	16,316
<b>At 31 March 2016</b>	<b>12,669</b>	<b>4,402</b>	<b>190</b>	<b>15,167</b>	<b>8,229</b>	<b>40,657</b>
Loss for the year	–	–	–	–	(854)	(854)
Other comprehensive income:						
Losses on available-for-sale financial assets	–	–	(13)	–	–	(13)
Deferred tax on available-for-sale financial assets	–	–	28	–	–	28
Total other comprehensive income for the year	–	–	15	–	–	15
Total comprehensive income for the year	–	–	15	–	(854)	(839)
Dividends paid	–	–	–	–	(2,534)	(2,534)
Share-based payments:						
– value of employee services	–	–	–	–	249	249
– issue of shares	3	27	–	–	–	30
<b>At 31 March 2017</b>	<b>12,672</b>	<b>4,429</b>	<b>205</b>	<b>15,167</b>	<b>5,090</b>	<b>37,563</b>

The notes on pages 149 to 153 are an integral part of these Parent Company financial statements.

# Parent Company statement of cash flows

Year ended 31 March 2017

	Notes	2017 £000	2016 £000
<b>Cash flows from operating activities</b>			
Cash generated from operating activities	42	1,903	(14,248)
Interest received		–	2
<b>Net cash generated from/(used in) operating activities</b>		<b>1,903</b>	<b>(14,246)</b>
<b>Cash flow from investing activities</b>			
Acquisition of intangible assets	34	(32)	(664)
Proceeds from sale of business		1,500	–
Proceeds from sale of available-for-sale financial assets		1,436	258
Purchase of available-for-sale financial assets	36	(1,292)	(246)
Investment in subsidiary		(350)	–
Dividends received		74	32
<b>Net cash generated from/(used in) investing activities</b>		<b>1,336</b>	<b>(620)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary share capital		30	16,609
Dividends paid	21	(2,534)	(1,754)
<b>Net cash generated from/(used in) financing activities</b>		<b>(2,504)</b>	<b>14,855</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>735</b>	<b>(11)</b>
Cash and cash equivalents at start of year		355	366
<b>Cash and cash equivalents at end of year</b>	40	<b>1,090</b>	<b>355</b>

The notes on pages 149 to 153 are an integral part of these Parent Company financial statements.

# Notes to the Parent Company financial statements

## Year ended 31 March 2017

### 33. Loss for the year

As permitted by section 408 of the Companies Act 2006, the Parent Company has elected not to present its own profit and loss account. The Parent Company reported a loss for the year of £0.9 million (2016: loss £1.2 million).

### 34. Intangible assets

Cost	Goodwill £000	Customer relationships £000	Total £000
At 1 April 2015	10,027	19,113	29,140
Additions	–	664	664
<b>At 31 March 2016</b>	<b>10,027</b>	<b>19,777</b>	<b>29,804</b>
Additions	–	32	32
<b>At 31 March 2017</b>	<b>10,027</b>	<b>19,809</b>	<b>29,836</b>
<b>Amortisation</b>			
At 1 April 2015	2,511	13,755	16,266
Amortisation charge	–	1,370	1,370
<b>At 31 March 2016</b>	<b>2,511</b>	<b>15,125</b>	<b>17,636</b>
Amortisation charge	–	1,290	1,290
Impairment	650	–	650
<b>At 31 March 2017</b>	<b>3,161</b>	<b>16,415</b>	<b>19,576</b>
<b>Net book value</b>			
<b>At 31 March 2017</b>	<b>6,866</b>	<b>3,394</b>	<b>10,260</b>
At 31 March 2016	7,516	4,652	12,168

Details of the annual impairment assessment can be found in note 14.

**35. Deferred tax assets**

	Total £000
<b>Revaluation</b>	
At 1 April 2015	56
Revaluation of available-for-sale financial assets	32
Other timing differences	(77)
<b>At 31 March 2016</b>	<b>11</b>
<b>Revaluation of available-for-sale financial assets</b>	<b>28</b>
<b>Other timing differences</b>	<b>3</b>
<b>At 31 March 2017</b>	<b>42</b>

Deferred tax assets and liabilities are calculated using an effective tax rate of 17% (2016: 18%).

**36. Available-for-sale financial assets**

Fair value	Listed investments	Unlisted investments	Total
At 1 April 2015	1,491	59	1,550
Additions	246	–	246
Disposals	(163)	(59)	(222)
Revaluation in year	(123)	–	(123)
<b>At 31 March 2016</b>	<b>1,451</b>	<b>–</b>	<b>1,451</b>
<b>Additions</b>	<b>1,292</b>	<b>–</b>	<b>1,292</b>
<b>Disposals</b>	<b>(1,215)</b>	<b>–</b>	<b>(1,215)</b>
<b>Revaluation in year</b>	<b>(13)</b>	<b>–</b>	<b>(13)</b>
<b>At 31 March 2017</b>	<b>1,515</b>	<b>–</b>	<b>1,515</b>

The fair value of listed investments is determined by reference to quoted prices on the active markets.



### 37. Investments in subsidiaries

<b>Cost</b>	Total £000
At 1 April 2015	52,842
Share options	132
<b>At 31 March 2016</b>	<b>52,974</b>
<b>Additions</b>	<b>350</b>
<b>Share options</b>	<b>249</b>
<b>Transfer to held for sale</b>	<b>(1,533)</b>
<b>Disposals</b>	<b>(302)</b>
<b>At 31 March 2017</b>	<b>51,738</b>
<b>Impairment</b>	
At 1 April 2015	13,521
Charge for the year	39
<b>At 31 March 2016</b>	<b>13,560</b>
<b>Charge for the year</b>	<b>–</b>
<b>At 31 March 2017</b>	<b>13,560</b>
<b>Net book value</b>	
<b>At 31 March 2017</b>	<b>38,178</b>
At 31 March 2016	39,414

### 38. Assets held for sale

The Group announced the sale of EBS Management PLC to Embark Group Limited on 11 April 2017. The investment in EBS Management PLC has been included in the Parent Company statement of financial position as held for sale.

The Group completed the disposal of Charles Stanley Financial Solutions Limited on 1 April 2016. In the previous financial year, the investment in Charles Stanley Financial Solutions Limited was presented in the Parent Company statement of financial position as held for sale. Refer to note 13 for details of the consolidated assets and liabilities held for sale.

Assets held for sale are presented in the table below.

	2017 £000	2016 £000
Investment in subsidiaries	1,533	716
	<b>1,533</b>	<b>716</b>

**39. Trade and other receivables**

	2017 £000	2016 £000
<b>Current</b>		
Amounts due from Group undertakings	1,300	1,527
Other debtors	4	4
	<b>1,304</b>	<b>1,531</b>

**40. Cash and cash equivalents**

	2017 £000	2016 £000
Cash at bank and in hand	1,090	355

**41. Trade and other payables**

	2017 £000	2016 £000
<b>Current</b>		
Amounts due to Group undertakings	16,598	14,396
Other payables	264	263
Accruals and deferred income	–	3
	<b>16,862</b>	<b>14,662</b>

## 42. Reconciliation of net loss to net cash generated from operations

	2017 £000	2016 £000
Loss before tax	(1,371)	(1,502)
Adjustments for:		
Amortisation of intangible assets	1,290	1,370
Impairment of intangible assets	650	–
Impairment of corporate loans	500	–
Dividend income	(74)	(32)
Interest income	–	(2)
Profit on disposal of available-for-sale financial assets	(221)	(36)
Profit on disposal of business	(1,245)	–
Changes in working capital:		
Decrease in receivables	174	467
Increase/(decrease) in payables	2,200	(14,513)
Net cash inflow/(outflow) from operations	1,903	(14,248)

## 43. Related party transactions

The Parent Company financial statements include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements and are analysed below:

	Receivable from related parties		Payable to related parties	
	2017 £000	2016 £000	2017 £000	2016 £000
Charles Stanley & Co. Limited	–	–	16,142	13,835
EBS Management PLC	–	190	160	–
EBS Pensioneer Trustees Limited	–	–	2	2
Gryphon Investments PLC	–	–	294	294
Sutherlands Group Limited	–	–	–	265
Charles Stanley Investment Choices Limited	1,300	1,337	–	–
	1,300	1,527	16,598	14,396

The principal transactions between the Parent Company and its subsidiaries impacting on the income statement during the year were in respect of recharges for costs and tax amounts payable/receivable under the Group Payment Arrangement.

During the year, the Parent Company made a capital contribution of £0.4 million (2016: £nil) to EBS Management PLC.

The Parent Company received dividends totalling £nil (2016: £0.2 million) from Charles Stanley Investment Choices Limited.

# Five year record

## 2013–2017

<b>Income statement year ended 31 March</b>	<b>2017 £000</b>	<b>2016 £000</b>	<b>2015 £000</b>	<b>2014 £000</b>	<b>2013 £000</b>
<b>Continuing operations</b>					
Revenue	<b>141,630</b>	138,650	144,264	137,894	123,108
Administrative expenses	<b>(136,122)</b>	(139,163)	(141,697)	(134,859)	(112,977)
Impairment of intangible assets	<b>(650)</b>	(465)	(8,277)	–	(380)
Other income	<b>186</b>	153	132	140	82
Operating profit/(loss)	<b>5,044</b>	(825)	(5,578)	3,175	9,833
Gain on surrender of lease	<b>5,550</b>	–	–	–	–
Loss on disposal of fixed assets	<b>(2,199)</b>	(131)	(178)	3	–
Gain on sale of business	<b>148</b>	299	1,200	–	–
Gain on sale of corporate investments	<b>423</b>	–	–	–	–
Impairment of corporate loans	<b>(500)</b>	–	–	–	–
Finance income	<b>397</b>	69	185	484	446
Finance costs	<b>(64)</b>	(99)	(75)	(85)	(44)
Net finance and other non-operating income	<b>3,755</b>	138	1,132	402	402
Profit/(loss) before tax	<b>8,799</b>	(687)	(4,446)	3,577	10,235
Tax (expense)/credit	<b>(2,539)</b>	47	(413)	(784)	(2,601)
Profit/(loss) from continuing operations	<b>6,260</b>	(640)	(4,859)	2,793	7,634
<b>Discontinued operations</b>					
Profit/(loss) from discontinued operations	–	333	(1,287)	1,965	(881)
Profit/(loss) for the year attributable to owners of the Parent Company	<b>6,260</b>	(307)	(6,146)	4,758	6,753
<b>Earnings per share</b>					
From continuing and discontinued operations					
Basic	<b>12.35p</b>	(0.61p)	(13.46p)	10.42p	14.87p
Diluted	<b>12.34p</b>	(0.61p)	(13.46p)	10.42p	14.87p
From continuing operations					
Basic	<b>12.35p</b>	(1.27p)	(10.64p)	6.12p	16.81p
Diluted	<b>12.34p</b>	(1.27p)	(10.64p)	6.12p	16.81p

# Glossary

Abbreviation	Definition
AGM	Annual General Meeting
CASS	Client Assets Sourcebook
CF30	A controlled function regulated by the Financial Conduct Authority applicable to all employees providing advisory services to clients
CGU	Cash Generating Unit
CIPD	Chartered Institute of Personnel and Development
CISI	Chartered Institute for Securities & Investment
CMI	The Continuous Mortality Investigation that carries out research into mortality and morbidity experience and produces table widely used by actuaries
Parent Company, Company, CSG	Charles Stanley Group PLC
CPI	Consumer Price Index
CREST	The settlement system used by the London Stock Exchange for settling all its transactions
CRO	Chief Risk Officer
CSC	Charles Stanley & Co. Limited, the Group's main operating subsidiary
CSFS	Charles Stanley Financial Solutions Limited
CSR	Corporate Social Responsibility
DTR	Disclosure Guidance and Transparency Rules
EPS	Earnings per share
EU	European Union
FCA	UK Financial Conduct Authority
FIT	FIT Remuneration Consultants LLP
FP (Matterley)	Authorised Corporate Directors of the Matterley Undervalued Assets Fund
FRC	UK Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FuM	Funds under Management
FuMA	Funds under Management and Administration
Group	Charles Stanley Group PLC and its controlled entities
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
IFPRU	The FCA's Prudential sourcebook for Investment Firms
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
LIBOR	London Interbank Offered Rate

Abbreviation	Definition
LIFFE	London International Financial Futures Exchange
LR	Listing Rules
MEC	Market Exposure Committee
MiFID II	Markets in Financial Instruments Directive II which is legislation for the regulation of investment services within the European Economic Area
OEIC	Open-ended Investment Company
PBT	Profit before tax
PRIIPS	Packaged Retail Investment and Insurance-based Products
PSP	Performance Share Plan
RAS	Risk Appetite Statement
RPI	Retail Price Index
S2PxA	Standard table used by actuaries for mortality assumptions
SIPP	Self-invested Personal Pension – a pension plan which enables the holder to choose and manage the investments made
SMCR	Senior Managers and Certification Regime
VAT	Value Added Tax, which is a type of consumption tax that is placed on a product whenever value is added at a stage of production and at final stage
VCT	Venture Capital Trust
WMA	Wealth Management Association
XO	Execution-only

# Company information

## Company Secretary

Julie Ung

## Registered office

55 Bishopsgate  
London EC2N 3AS

## Company registration number

48796 (England and Wales)

## Group website

[charles-stanley.co.uk](http://charles-stanley.co.uk)

## Registrars

### Capita Registrars Limited

Northern House  
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Huddersfield HD8 0GA

## Principal bankers

### Bank of Scotland

New Ueberior House  
11 Earl Grey Street  
Edinburgh EH3 9BN

## External auditor

### KPMG LLP

Chartered Accountants  
15 Canada Square  
London E14 5GL

## Brokers

### Canaccord Genuity

88 Wood Street  
London EC2V 7QR

### Peel Hunt LLP

Moor House  
120 London Wall  
London EC2Y 5ET

## Financial calendar

<b>14 June 2017</b>	Results announcement
<b>29 June 2017</b>	Ex-dividend date for final dividend
<b>30 June 2017</b>	Record date for final dividend
<b>27 July 2017</b>	Annual General Meeting
<b>31 July 2017</b>	Final dividend paid

## Where we are

We operate in 24 UK locations.



For a list of  
our offices visit:  
[charles-stanley.co.uk](http://charles-stanley.co.uk)

