Registered number:
1903304

# CHARLES STANLEY & CO LIMITED

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS

## YEAR ENDED 31 MARCH 2015

## CONTENTS

## CHARLES STANLEY & CO LIMITED

## COMPANY INFORMATION

| | |
|---|---|
| **Directors** | Sir David Howard Bt<br>E M Clark (resigned 31 March 2015)<br>J H Rawlingson (resigned 07 January 2015)<br>M R I Lilwall<br>G Teper<br>M M Murphy (resigned 25 July 2014)<br>P C Nathan MBE (resigned 25 July 2014)<br>M Anderson (resigned 25 July 2014)<br>J H S Akerman (resigned 25 July 2014)<br>C Harris-Deans (resigned 25 July 2014)<br>A C Scott (appointed 09 April 2014)<br>J Stewart-Smith (resigned 25 July 2014)<br>M G Bennett (resigned 25 July 2014)<br>P Abberley (appointed 09 December 2014)<br>B Money-Coutts (appointed 10 June 2015)<br>B Guerin (appointed 25 July 2014)<br>D Pusinelli (appointed 25 July 2014) |
| **Company secretary** | Julie Ung |
| **Company number** | 1903304 |
| **Registered office** | 25 Luke Street<br>London<br>Greater London<br>EC2A 4AR |
| **Auditor** | KPMG LLP<br>Chartered Accountants<br>15 Canada Square<br>London<br>E14 5GL |
| **Bankers** | Bank of Scotland<br>New Uberior House<br>11 Earl Grey Street<br>Edinburgh<br>EH3 9BN |

## STRATEGIC REPORT
## FOR THE YEAR ENDED 31 MARCH 2015

### OUR BUSINESS

Charles Stanley remains one of the UK's leading independently owned private client investment management firms. We have a long heritage, dating back to 1792, which includes membership of the Stock Exchange under the Charles Stanley name since the 1850s. We manage and administer over £21.3 billion of assets on behalf of 80,577 clients, many of whom have been with us over decades or generations due to the excellence of our services and commitment to client care.

These principles of service will remain at the heart of everything we do. However, in recent times we have begun to take significant steps to refocus our business and realign our model with the changing requirements of our clients, our regulator and our market place. The desire to modernise the business has been evident in the changes we have made to our senior management team and by the commitment we have made to enact the recommendations of the Strategic Review of our business.

This Strategic Review, led by our new Chief Executive Officer, has involved a thorough analysis of our businesses with a view to identifying those which have the capacity to develop further and contribute to our overall vision of building Charles Stanley into the UK's leading Wealth Management Business by 2020. The benchmarks we employ to evaluate the extent to which we have achieved this vision shall be to seek top quartile, independently assessed performance in the following three key areas.

1. Client Satisfaction;
2. Equity market rating (on a like for like basis with our peers); and
3. Staff engagement.

The timescale for the delivery of this vision demonstrates that we consider the process of redefining and then benefitting from our revised strategy as a major and long term project which will require considerable endeavour from our employees and perhaps some degree of patience from our shareholders.

Our core activity is to provide investment management services to an affluent private client base, although we very frequently act on behalf of charities, corporates and trusts. Over the past decade we have increasingly focused on a fully Discretionary fee paying service. Our Discretionary Managed client base now accounts for 43.7% of our clients' Funds under Management and Administration, up from 8.9% at the turn of the millennium. This trend can also be seen in the balance of our revenues which is now provided in the majority by fee-based income. To complement our investment management business we are refining the offering provided by various of our central Investment Management teams (Matterley Funds, PAN Asset Management, the Collectives Portfolio Service, IHT Portfolio Service, Discretionary Fund Management and the central Research Function) into an Asset Management division, which is a range of investment solutions emerging directly from our Investment Process. We are taking steps to improve and extend the scope of our Investment Process as a part of this exercise.

Alongside this, we also retain a strong commitment to providing a spectrum of services and regard our Advisory business and Execution-only services as an integral part of our Investment Management offering. Furthermore, we remain excited by the prospects for growth in the online self-directed market which Charles Stanley Direct services. We also believe the market place for Financial Planning services will develop considerably in the future and is one which fits naturally with our core competencies. Accordingly we are looking to develop further our Financial Planning offering as we can see this being both an increasingly integrated product but also as a source of new clients being introduced to the firm.

## STRATEGIC REPORT
## FOR THE YEAR ENDED 31 MARCH 2015

We believe we have a natural competitive advantage in these businesses which, when correctly leveraged, will offer a differentiated and superior service for our clients. By comparison, in the instance of Charles Stanley Securities, although we have every confidence that the business is well positioned to serve their client base, we have decided that they do not have the desired degree of commonality with our target market to justify continued ownership by the Company. Accordingly, we have announced our intention to dispose of this activity. The exchange of contracts with Panmure Gordon (UK) Limited for the sale of Charles Stanley Securities was announced to the market on 17 June 2015 and completed on 15 July 2015.

We rely upon our team of over 400 investment managers and financial planners located in offices through the country to deliver our services and products to our clients. We believe that a close personal relationship between adviser and clients is essential to the development of our business and is consistent with the reputation for client satisfaction that we enjoy. Geographical decentralisation supports this. We also remain committed to a truly bespoke service in which investment professionals achieve superior risk assessed performance by really listening to, and understanding, the needs and desires of, their clients.

We will continue to be investment-led and to regard a personal service as the heart of our offering. With this as our foundation we have taken considerable steps to respond to the changing needs of our customers and our regulators in delivering our investment solutions. This will inevitably lead to us developing a more targeted and differentiated investment management service. Over the last 18 months we have carried out a programme to understand the financial circumstances and investment objectives of our clients with a greater depth and rigour than ever before. Although this has involved an enormous commitment of our time and resources we believe that the quality of the portfolios that we will deliver as a result will strengthen the longevity of our client relationships over the medium to longer term. We are currently in the midst of a review and reorganisation of our investment process and the consequent tools that we are able to put at the disposal of our investment managers. This review will enhance the quality and extent of the general asset allocation guidance which is produced by the Company, and will be made available as a supporting framework from which our investment manager can design bespoke portfolios.

We are confident that the ingredients of the Charles Stanley business remain as attractive today as at any other point in our history, and that following the implementation of our Strategic Review we will be in an excellent position to drive greater value for all of our stakeholders.

## OUR SERVICES

### Investment Management

The core of our business is contained within our Investment Management Services division. This accounts for approximately 89.6% of the total assets. We manage and administer 85.8% of Company revenue. The services of our Investment Management division are provided by our investment managers via our network of regional branches and London Head Office.

Within our Investment Management division our flagship offering is Discretionary Investment Management. This is predominantly a fee-based service directed at private clients who wish to delegate the management of their investment portfolio to a recognised professional. Our investment managers create bespoke portfolios tailored to the individual objectives and personal risk tolerances of their clients. Our investment managers use their own investment expertise and experience, and a wealth of in-house research and tax efficient wrappers provided by the Company to manage client assets. We are currently upgrading our investment process with a view to providing our investment managers with an even stronger asset allocation framework to serve as the foundation for the bespoke portfolios they create.

Within our Discretionary Investment Management service we also offer our Collectives Portfolio Service and Pan Asset Management. Both are model-based services which provide clients a low cost method of gaining access to our investment process and expertise via exposure to collective investment vehicles as opposed to direct exposure to individual securities. These products are primarily aimed at clients with modest investible assets and for whom a fully bespoke portfolio is not cost effective. The model solutions are available to all of our investment managers and are also made selectively available to financial intermediaries via external investment platforms. We shall be making changes to the operation of our model-based services as part of the upgrading of our central investment proposition into an Asset Management division. We would expect this to be a considerable area of growth for the Company over time.

Within the Investment Management Services division we offer a full suite of Advisory, Dealing and Execution services. We provide Advisory Managed services to those clients who wish to have their investment portfolios managed by an investment professional but wish to retain the ultimate decision making power over individual investment decisions. We report the assets we manage within our Advisory Managed business together with the assets of our Discretionary Managed business and describe this as our Managed business.

We selectively offer an Advisory Dealing service to a number of individuals with a keen interest in and considerable experience of investment and markets. This remains an important part of our offering as it still accounts for £2.1 billion of our Funds under Management and Administration. Accordingly it is one which we will continue to offer to appropriate clients. Our Execution-only service provides a dealing, custody and administration service to clients who wish to make their investment decisions over all or part of their portfolio, and who accordingly require no advice. This service may be accessed via an Investment Manager, through a dedicated telephone-based dealing service or online via Charles Stanley Direct.

Across the Investment Management Service division we offer clients access to a variety of services and products which are designed to ensure the efficient administration of their portfolios both from a custodial and a tax perspective. We offer clients the opportunity to hold their investments with us via a Charles Stanley Nominee account or via CREST personal membership and offer clients a full cash management service. From a tax efficiency viewpoint, we also offer clients access to our in-house Individual Savings Accounts, Self-Invested Personal Pensions and Inheritance Tax Portfolio Service.

**Charles Stanley Direct**

Charles Stanley Direct has been developed in recent years to service the requirements of a growing customer base that wish to use an online platform to conduct aspects of their investment activities and are comfortable in making their decisions without access to advice. We believe that this group of clients will continue to grow. Since its launch in 2013, Charles Stanley Direct has attracted more than 20,000 accounts and now has well in excess of £1 billion of Assets under Administration.

**Financial Planning**

Our financial planners advise clients across the full spectrum of their needs with a particular expertise in the pensions, retirement and inheritance fields. The Financial Planning service is offered through our branch network and is delivered alongside an investment management service. We believe the financial planning market will continue to grow and is complementary to our core investment management activities. We will seek to roll out this service further and extend our team of Chartered Financial Planners accordingly.

**OUR MARKETS**

Charles Stanley operates solely within the UK's wealth management industry. This is a sizeable market place with over £737 billion of assets being administered by UK based Wealth Management institutions. The table below sets out the total assets managed by Charles Stanley and those we consider to be its immediate peers.

Despite its size the market remains highly fragmented with at least 180 firms in operation. The top 10 players control only 31% of the market place.

We believe the industry will continue to undergo rapid change. For example we estimate that the number of individuals with between £50,000 and £5 million of investible assets will increase 18% by 2018. This is partly evidence of the pace of retirement of the baby boomer generation gathering speed. The UK has an increasing number of elderly, with a disproportionate amount of wealth concentrated in individuals over 65 years old. This group is faced with making provision for long years of retirement as life expectancies continue to increase. This will inevitably increase the demand for investment management and financial planning services.

There is no doubt that the recent changes that have been made to pensions legislation both in regard to auto-enrolment and in the removal of the requirement for annuity purchases will increase the pool of capital available to the wealth management industry. We anticipate that we will need to extend the provision of our services to a changing client base and that the industry will respond to these trends with an evolving product suite.

Our industry is also confronting the challenges posed by the increasing technological requirements of our natural client base. Our clients are increasingly comfortable in handling their financial affairs on mobile devices and are managing sizeable transactions via this medium. There is an increasing demand for up to the minute online access to investment portfolios and the ability to trade remotely. Although we have developed a number of innovative solutions to these changing requirements it remains an ongoing challenge to ensure that the technological capabilities can service these needs, and ensure that access and transactions are carried out with the requisite levels of security.

Furthermore, the regulatory environment in which we operate has been rapidly developing and we anticipate that this trend will continue. We, like many others in the industry, have been investing heavily to ensure that our processes and systems place us in a position to comply with the increased regulatory scrutiny in which we manage our clients' money. We believe that the investment we have made will lead us to be in a better position to service our clients' needs.

| *Key performance indicators* | *Actual 2015* | *Actual 2014* | *Actual 2013* |
|---|---|---|---|
| Operating margin* | 2.1% | 4.6% | 8.3% |
| Underlying (net of market) FUMA growth rate | | | |
| - Investment Management Services | (3.4%) | 7.3% | 9.4% |
| Discretionary FuM inflows | **5%** | 26% | 17% |
| Discretionary service yield | **91bps** | 97bps | 95bps |
| Advisory Managed service yield | **71bps** | 69bps | 70bps |
| FuMA per CF30 | **58.0** | 55.6 | 49.8 |
| Discretionary income per CF30 | **£198k** | £184k | £154k |
| Fees to revenue ratio | **63.5%** | 55.8% | 54.3% |
| Costs to revenue ratio | **98.9%** | 98.2% | 94.1% |
| Underlying profit before tax margin* | **7.7%** | 10.6% | 9.0% |

** Adjusted for the FSCS levy*

## REVIEW OF THE YEAR

Whilst elements of Charles Stanley's financial performance for the year ended 31 March 2015 were encouraging, most notably the continued growth of our Funds under Management and Administration (FuMA), the growing proportion of Discretionary Managed funds, and the continued rapid growth of Charles Stanley Direct, other critical aspects of the Company's performance were disappointing, most obviously the deterioration of the operating margin owing to increased costs. These factors, together with a number of other charges, ultimately led to a reported pre-tax profit for the year of £2.8 million (2014: £5.3 million).

**Funds under management and Administration**
Total Funds Under Management and Administration ("FUMA") at 31 March 2015 reached a new high of £20.8 billion, up 9.1% from £19.1 billion at 31 March 2014. Within this, Managed funds increased 14.9% with Discretionary funds up 20.9% to £9.3 billion and Advisory Managed funds constant at £3.0 billion.

Administered funds increased 1.8%. In line with the general industry trend, Advisory Dealing funds declined marginally to £2.1 billion. Notwithstanding this we retain a strong commitment to providing the service as part of our full spectrum offering, though see it becoming a more specialist service for individuals with a keen interest in and considerable experience of investment and markets and priced accordingly. Execution-only funds grew 8.2% to £6.5 billion with particularly strong growth of 29.0% through our direct to client platform, Charles Stanley Direct.

| | **2015** | 2014 | *Change* | |
|---|---|---|---|---|
| | **£bn** | £bn | *£bn* | % |
| Discretionary | **9.31** | 7.70 | 1.61 | 20.9% |
| Advisory managed | **2.97** | 2.99 | (0.02) | (0.7%) |
| Total managed | **12.28** | 10.69 | 1.59 | 14.9% |
| Advisory dealing | **2.05** | 2.39 | (0.34) | (14.2%) |
| Execution only | **6.48** | 5.99 | 0.49 | 8.2% |
| Total administered | **8.53** | 8.38 | 0.15 | 1.8% |
| Total funds | **20.81** | 19.07 | 1.74 | 9.1% |
| FTSE 100 Index | **6,773** | 6,598 | 175 | 2.7% |
| WMA Stock Market Balanced Index | **3,684** | 3,385 | 299 | 8.8% |

**Overview of Financial Performance**

The Company's financial performance is shown on the next page split between its continuing activities and discontinuing activities, the business which is Held for sale, being Charles Stanley Securities. The table also shows the underlying performance of these activities. The underlying profit before tax and earnings per share are considered by the Board to be a better reflection of true business performance than looking at Charles Stanley's results on a statutory basis only, and reflect adjustments widely used by our peer group and equity research analysts. A full breakdown of the adjustments is provided in on page 9.

**Results for the year**

| | Continuing operations £m | Held for Sale £m | Underlying performance £m | Adjusting items £m | Reported performance £m |
|---|---|---|---|---|---|
| ***2015*** | | | | | |
| Revenue | 136.3 | 5.4 | 141.7 | - | 141.7 |
| Costs | (133.0) | (7.0) | (140.0) | (1.8) | (141.8) |
| Other income | 0.1 | - | 0.1 | - | 0.1 |
| **Operating contribution** | **3.4** | **(1.6)** | **1.8** | **(1.8)** | **(0.0)** |
| Finance and other income | - | - | - | 1.2 | 1.2 |
| **Profit before tax** | **3.4** | **(1.6)** | **1.8** | **(0.6)** | **1.2** |
| Operating margin | 2.5% | (29.6%) | 1.3% | | 0.0% |
| ***2014*** | | | | | |
| Revenue | 130.3 | 11.1 | 141.4 | - | 141.4 |
| Costs | (121.7) | (8.6) | (130.3) | (4.9) | (135.2) |
| Other income | 0.1 | - | 0.1 | - | 0.1 |
| **Operating contribution** | **8.7** | **2.5** | **11.2** | **(4.9)** | **6.3** |
| Finance and other income | 0.3 | - | 0.3 | - | 0.3 |
| **Profit before tax** | **9.0** | **2.5** | **11.5** | **(4.9)** | **6.6** |
| Operating margin | 6.9% | 22.5% | 8.1% | | 4.7% |

**Operating Income**
Operating income from continuing activities increased by 4.6% to £136.3 million for 2015 from £130.3 million in 2014. Revenues of the Held for sale and discontinued activities of Charles Stanley Securities declined 51.3% largely as a result in a decline in corporate finance fees. Overall Company revenues were up 0.2% to £141.7 million from £141.4 million the prior year.

A more detailed analysis of revenue by division is set out on page 10 in the divisional review.

**Company underlying operating expenses**
Company operating expenses from continuing activities increased 9.3% from £121.7 million in 2014 to £133.0 million in 2015. The increase was primarily accounted for by headcount and associated remuneration increases. The expenses of the discontinued and Held for sale activities decreased by 18.6% to £7.0 million largely due to a £3.7 million reduction in the variable remuneration paid to Charles Stanley Securities staff. Combined underlying operating expenses were £140.0 million (2014: £130.3 million).

**Underlying operating margin**

The Company's operating margin for its core continuing operations fell from 6.9% for 2014 to 2.5% for 2015. In overall terms operating margin fell from 4.7% to 0.0 %. The main driver of this decline was the sharp increase in the cost base against relatively flat revenues. Clearly this level of profitability is unsustainable and the Board's highest single priority in financial performance terms is to restore the margin to at least 15% by no later than 2018.

**Adjusting items**

We consider the underlying profit before tax to be a better reflection of true business performance than looking at results on a statutory basis only. To calculate the underlying results we have excluded the items detailed below.

| | **2015** | 2014 |
|---|---|---|
| | **£m** | £m |
| Charles Stanley Direct and other investment one-off costs | **-** | 1.3 |
| FSCS Levy | **1.3** | 1.2 |
| Non-recurring professional fees | **0.2** | - |
| Branch acquisition cost | **0.3** | 2.4 |
| Sale of Fund Asset | **(1.2)** | - |
| Adjusting items total | **0.6** | 4.9 |

***FSCS levy (£1.3 million)***

For the period the Company incurred Financial Compensation Scheme levy totalling £1.6 million. During the year the FSCS was successful in recovering some of its costs in relation to claims made in previous years. As a result the Company received a rebate of £0.3 million of its 2010/11 levy.

***Non-recurring professional costs (£0.2 million)***

At the request of the Financial Conduct Authority ("FCA"), the Company engaged Ernst & Young to help it review its processes for conducting client suitability assessments, make recommendations for their improvement and subsequent validation testing to ensure changes made in line with these recommendations had been implemented and were working as intended.

***Branch acquisition costs (£0.3 million)***

The Company was joined by a team of investment managers in Leicester in October 2013. This led to various one off costs due to their being in a start-up phase. No further acquisition costs are expected in relation to this branch.

***Sale of Fund Asset (profit £1.2 million)***

In September 2014 the Company sold the Matterley Undervalued Asset Fund for Miton Group for an initial consideration of £0.75 million. Based on the current level of assets in the fund, further deferred consideration of £0.45 million will be payable in June 2015 and has therefore been recognised through the profit and loss account in the current financial year.

**Taxation**

Owing to the Company reporting a loss before tax, the Company has a tax expense of £0.7 million in relation to the current financial year (2014: £1.3 million). A full reconciliation of the tax credit is provided in note 13 of the financial statements.

**Divisional review**

The Company is currently comprised of four operating divisions as summarised below:

| | |
|---|---|
| ***Investment Management Services*** | Provision of investment services to individuals, companies, trusts and charities. |
| ***Financial Services*** | Financial planning and wealth management, . |
| ***Charles Stanley Direct*** | Direct-to-client investment service including online dealing |
| ***Charles Stanley Securities*** | Advisory, broking and corporate finance services for smaller and mid-cap UK listed companies. This business is held for sale and treated as a discontinued activity |

Charles Stanley Securities is held as assets for sale.

The split of funds, revenue, underlying expenses and underlying operating (loss)/profit between the divisions, and as between Continuing and the Discontinuing Operations, is summarised in the following tables.

**Fund analysis**

| | **2015** | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| *Funds* | **Total** | IM Services | Financial Services | Charles Stanley Direct | **Total** | IM Services | Financial Services | Charles Stanley Direct |
| | **£bn** | £bn | £bn | £bn | **£bn** | £bn | £bn | £bn |
| Discretionary | **9.31** | 8.63 | 0.68 | - | **7.70** | 7.56 | 0.14 | - |
| Advisory managed | **2.97** | 2.70 | 0.27 | - | **2.99** | 2.73 | 0.26 | - |
| Advisory dealing | **2.05** | 2.05 | - | - | **2.39** | 2.39 | - | - |
| Execution only | **6.48** | 5.26 | 0.02 | 1.20 | **5.99** | 5.04 | 0.02 | 0.93 |
| Total funds | **20.81** | 18.64 | 0.97 | 1.20 | **19.07** | 17.72 | 0.42 | 0.93 |

**Revenue analysis**

| | **2015** | 2014 | Change | |
|---|---|---|---|---|
| | **£m** | £m | £m | % |
| Investment Management Services | **121.6** | 117.7 | 3.9 | 3.3 |
| Financial Services | **8.6** | 7.0 | 1.6 | 22.9 |
| Charles Stanley Direct | **3.4** | 2.0 | 1.4 | 70.0 |
| Charles Stanley Securities | **8.1** | 14.7 | (6.6) | (44.9) |
| **Total revenue** | **141.7** | 141.4 | 0.3 | 0.2 |
| Continuing operations | **136.3** | 130.3 | 6.0 | 4.6 |
| Discontinuing operations / Held for sale | **5.4** | 11.1 | (5.7) | (51.4) |
| | **141.7** | 141.4 | 0.3 | 0.2 |

**INVESTMENT MANAGEMENT SERVICES**
Our Investment Management Services division lies at the centre of our business, accounting for 89.6% of total funds and 85.8% of Company's revenue.

The services this division provides are summarised below:

| | |
|---|---|
| ***Managed*** | Discretionary portfolio management<br>Advisory portfolio management |
| ***Administered*** | Advisory share dealing<br>Execution only share dealing (excluding online services) |

Investment Management Income is generated from:

- Investment management fees, which are based on a percentage of the value of clients' funds under management;
- Administration fees based on a combination of percentage of funds and fixed fees;
- Commissions charged on transactions undertaken on behalf of clients; and
- Interest turn on cash balances.

**Funds under management ("FUMA")**
FUMA is the main driver for the financial performance of the Investment Management Services division. Investment Management FUMA has increased by 5.1% from £17.7 billion at the beginning of the year to £18.6 billion at 31 March 2015 and managed funds, comprising discretionary managed and advisory managed funds, respectively changed by +14.2% and -1.1%, in part owing to a shift of advisory managed funds to the discretionary service. This is expected to be a continuing pattern.

| | Managed £bn | Administered £bn | Total £bn | Change % |
|---|---|---|---|---|
| Funds at 1 April 2014 | 10.3 | 7.4 | 17.7 | |
| New investment managers | 0.3 | 0.2 | 0.5 | |
| New clients of existing managers | 0.1 | (0.8) | (0.7) | |
| Net transfers | 0.0 | 0.0 | 0.0 | |
| Lost clients | (0.2) | (0.2) | (0.4) | |
| **Net inflow/(outflow) of funds** | **0.2** | **(0.8)** | **(0.6)** | **(3.4%)** |
| Market movement | 0.8 | 0.7 | 1.5 | 8.5% |
| **Funds at 31 March 2015** | **11.3** | **7.3** | **18.6** | **5.1%** |

Fund flows during the past financial year were substantially driven by market movement rather than net inflow of new funds. This was disappointing but we believe substantially accounted for by the fact that during the year our Investment Managers were heavily engaged in the client suitability repapering exercise which has been a very major undertaking. Whilst ensuring the suitability of our services for our clients and alignment of their investment portfolios to their requirements is an evergreen undertaking, the upgrade programme we have been undertaking draws to its conclusion at the end of June 2015. We are hopeful that with the conclusion of this exercise, our investment managers will be able to focus more time on marketing activity. We can expect that this, along with the Company bringing greater focus to its overall marketing strategy (one of its key initiatives), will lead to increasing levels of new business.

**Financial performance**

The financial performance of the IMS division is detailed in the table below

| | Underlying profit before tax £m | Total adjusting items £m | Reported profit before tax £m |
|---|---|---|---|
| ***2015*** | | | |
| Revenue | 121.6 | - | 121.6 |
| Cost | (70.5) | (1.8) | (72.3) |
| Other income | 0.1 | - | 0.1 |
| Operating contribution | 51.2 | (1.8) | 49.4 |
| Allocated costs | (40.7) | | (40.7) |
| Operating profit | 10.5 | (1.8) | 8.7 |
| ***2014*** | | | |
| Revenue | 117.7 | - | 117.7 |
| Cost | (63.2) | (3.4) | (66.6) |
| Other income | 0.1 | - | 0.1 |
| Operating contribution | 54.6 | (3.4) | 51.2 |
| Allocated costs | (40.8) | | (40.8) |
| Operating profit | 13.8 | (3.4) | 10.4 |

**IMS Revenues**
The revenues of IMS division comprise investment management fees, trading commission and interest turn. Revenue within IMS increased 3.3% to £121.6 million in 2015 from £117.7 million in the previous year. This can largely be attributed to the growth in Funds Under Management over the period driven by market gains.

Revenue generated from managed services is shown in the following table.

| *Income from managed clients* | **March 2015 Total** | Disc | Adv | **March 2014 Total** | Disc | Adv | Change | |
|---|---|---|---|---|---|---|---|---|
| | **£m** | £m | £m | **£m** | £m | £m | £m | % |
| Fees | **62.1** | 48.9 | 13.2 | **50.5** | 39.4 | 11.1 | 11.6 | 23.0% |
| Commission | **28.3** | 22.7 | 5.6 | **31.3** | 24.6 | 6.7 | (3.0) | (9.6%) |
| Interest | **2.4** | 1.9 | 0.5 | **3.2** | 2.8 | 0.4 | (0.8) | (25.0%) |
| | **92.8** | 73.5 | 19.3 | **85.0** | 66.8 | 18.2 | 7.8 | 9.2% |
| | **£bn** | £bn | £bn | **£bn** | £bn | £bn | £bn | % |
| Average funds | **10.8** | 8.1 | 2.7 | **9.6** | 6.9 | 2.7 | 1.2 | 12.5% |
| | **bps** | bps | bps | **bps** | bps | bps | | |
| Revenue margin | **86** | 91 | 71 | **89** | 97 | 69 | (3) | (3.4%) |

The very healthy growth of 23.0% in fees from £50.5 million to £62.1 million in our Managed business was partially offset by a decline in commission of 9.6% from £31.3 million at the end of last year to £28.3 million in the current year. This trend has been driven by our focus on encouraging more clients toward a fee paying Discretionary service at the expense of charging lower commission or none at all. Commission revenues further declined as a result of lower dealing activity. In overall terms, the volume of commission earning bargains declined 18.8% year on year. Finally interest turn on aggregated client cash balances, where we share with clients the benefits of wholesale rates that we can achieve on large balances (typically in excess of £1 billion at any one time) versus what can be achieved on individual small retail deposits), declined 25.0% on the prior year to £2.4 million. In the near term it is likely that this aspect of our revenues will decline further as we remain in an exceptionally low interest rate environment and few banks wish to take these deposits because of the high level of regulatory capital they are required to set aside against client cash.

Whilst our overall revenues from Managed business increased in 2015, our revenue margin on Funds under Management, declined from 89bps to 86bps. This is a key performance indicator and one we will be seeking to improve in coming years. Although superficially we believe it does not appear to be out of step with our competitors, we believe it is low relative to the average size of client portfolio we manage.

The revenue performance of the administered element of our Investment Management division's business is summarised in the table below. This comprises Advisory Dealing and Execution-only services. Total revenue fell 10.8% from £32.3 million in in 2014 to £28.8 million in 2015. The drivers of this performance were similar to that of the Managed business, in this instance comprising higher fees and higher interest turn (because of higher average cash balances held by clients) offset by a marginal decrease in assets under administration and commission income.

| *Income from administered clients* | **March 2015 Total £m** | Disc £m | Adv £m | **March 2014 Total £m** | Disc £m | Adv £m | Change £m | Change % |
|---|---|---|---|---|---|---|---|---|
| Fees | **9.2** | 3.1 | 6.1 | **8.6** | 3.1 | 5.5 | 0.6 | 7.0% |
| Commission | **17.6** | 5.6 | 12.0 | **21.9** | 8.0 | 13.9 | (4.3) | (19.6%) |
| Interest | **2.0** | 0.6 | 1.4 | **1.8** | 0.7 | 1.1 | 0.2 | 11.1% |
| | **28.8** | 9.3 | 19.5 | **32.3** | 11.8 | 20.5 | (3.5) | (10.8%) |

**IMS Costs**

IMS's underlying costs increased 11.6% during the year from £63.2 million to £70.5 million. The major contributory elements to this increase of £3.9 million were employment and IT costs.

By far the most significant cost the division incurs is employment costs (as is the case for the entire Company) which rose to 58.0% of revenues from 53.7% in the prior year. Improving productivity of our Investment Management teams, is a key area of focus for the Board. This can be achieved by amending the compensation structures, increasing the FuMA managed by each Investment Manager; increasing the revenues charged on those assets; and optimising the ratio of front office to middle and back office staff by improving and standardising workflow processes.

**IMS operating profit**

IMS achieved an underlying operating profit of £10.5 million, a decline of 23.9% since the prior year. This decline was caused by its increased cost base. Its operating margin was 8.6% compared to 11.7% in 2014.

## FINANCIAL SERVICES

The Financial Services division currently comprises a number of different activities including:

| *Business areas* | *Services provided* |
|---|---|
| ***Financial planning and wealth management*** | Financial Planning and wealth management across the full spectrum of client needs with a particular expertise in the pensions, retirement and inheritance options |
| ***Charles Stanley Pan Asset*** | Investment management services focussed on asset allocation and passive investments |
| ***Matterley*** | Fund management |

The trading performance of the Financial Services division is set out in the table below.

| **2015** | Underlying profit/(loss) before tax | Total adjusting items | Reported profit/(loss) before tax |
|---|---|---|---|
| **Continuing Operations** | | | |
| Revenue | 8.6 | - | 8.6 |
| Cost | (7.7) | - | (7.7) |
| Other income | - | - | - |
| Operating contribution | 0.9 | - | 0.9 |
| Allocated costs | (2.9) | - | (2.9) |
| Operating profit | (2.0) | - | (2.0) |
| | | | |
| **2014** | | | |
| Revenue | 7.0 | - | 7.0 |
| Cost | (6.0) | - | (6.0) |
| Other income | - | - | - |
| Operating contribution | 1.0 | - | 1.0 |
| Allocated costs | (2.1) | (0.3) | (2.4) |
| Operating profit | (1.1) | (0.3) | (1.4) |

Total revenue for the Financial Services division grew by 22.9% from £7.0 million to £8.6 million. This includes 4 months of revenue for Charles Stanley Pan Asset which transferred its business into Charles Stanley and Co. Limited on 30 November 2014.

**Financial Services Division Revenue**

The following table gives the breakdown of profitability of each business within the division for the year ended 31 March 2015.

| 2015 | Financial Planning and Wealth Management | Charles Stanley Pan Asset | Matterley | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Revenue | 5.6 | 0.4 | 2.6 | 8.6 |
| Direct costs | (4.4) | (0.7) | (2.6) | (7.7) |
| Profit/(loss) before tax | 1.2 | (0.3) | - | 0.9 |
| Allocated costs | | | | (2.9) |
| Underlying profit/(loss) before tax | | | | (2.0) |

| 2014 | Financial Planning and Wealth Management | Charles Stanley Pan Asset | Matterley | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Revenue | 4.7 | - | 2.3 | 7.0 |
| Direct costs | (4.2) | - | (1.8) | (6.0) |
| Profit/(loss) before tax | 0.5 | - | 0.5 | 1.0 |
| Allocated costs | | | | (2.1) |
| Underlying profit/(loss) before tax | | | | (1.1) |

**Financial Planning and wealth management**
The Financial Planning and wealth management department has increased its gross revenue by 19.1% over the year from £4.7 million to £5.6 million. This is a satisfactory result despite trail commission being replaced by adviser charging and customer agreed remuneration. We have addressed many of the issues raised by the RDR and believe the business is well placed to face the challenges presented, such as the changes to pension scheme regulations.

Costs in the business increased by £0.2 million to £4.4 million (2014: £4.2 million) as a result of increased employment costs arising from the recruitment of a number of senior financial planners into the division to grow the business.

**Charles Stanley Pan Asset Capital Management**
Charles Stanley Pan Asset made a 4 month contribution to revenue of £0.4 million, with the business being transferred on 30 November to Charles Stanley & Co Limited. Planned cost savings have begun to be realised now that the team has been integrated with the rest of the Company's investment management operations.

As indicated in the strategy review section, we are currently in the midst of a review and re-organisation of our investment process with a view to enhancing the quality and extent of the general asset allocation guidance which is produced by the Company. This will involve the creation of a Central Investment Proposition (CIP) division which will draw together Pan, Matterley (including their Collective Portfolio Service) and equity, bond and funds research teams. We believe that the adoption of this CIP will encourage greater productivity amongst our investment managers and allow us to strengthen our nascent relationships with the Intermediary market.

In addition to bespoke investment solutions, Pan, together with our Collectives Portfolio Service, offer clients low cost model portfolio solutions. These provide clients a low cost method of gaining access to our investment process and expertise via exposure to collective investment vehicles as opposed to direct exposure to individual securities. These products are primarily aimed at clients with modest investable assets and for whom a fully bespoke portfolio is not cost effective. The model solutions are available to all of our investment managers and are also made selectively available to financial intermediaries via external investment platforms. We shall be making changes to the operation of our model based services as part of the upgrading of our Central Investment proposition. We would expect this to be a considerable area of growth for the Company over time and will be seeking considerable asset growth in this business.

**Matterley**

Matterley manages a range of open ended investment funds, predominantly targeted internally either toward smaller clients to provide them with proper asset diversification in a cost efficient fashion or to meet specific needs (for example the UK & International Growth Fund which is managed by our successful Court of Protection team).

During the year the Matterley Undervalued Assets Fund was sold to Miton Group for an initial consideration of £0.75 million and a deferred payment based on the AUM of the Fund. As at 31 March 2015, we have recognised a deferred payment of £0.45 million based on its AUM at that date.

Excluding the Undervalued Assets Fund, the Matterley funds have seen growth of 19.6% since the previous year, with notable growth in the UK & International Growth fund.

| | **March 2015 £m** | March 2014 £m | Growth |
|---|---|---|---|
| FP Matterley High Income Fund | **69.9** | 59.5 | 17.5% |
| FP Matterley Equity Fund | **10.7** | 10.7 | - |
| FP Matterley International Growth Fund | **19.8** | 16.7 | 18.6% |
| FP Matterley UK & International Growth Fund | **100.1** | 80.7 | 24.0% |
| FP Matterley Undervalued Assets Fund | - | 92.7 | (100.0%) |
| Total | **200.5** | 260.3 | (23.0%) |

Since the year end, we have launched the Matterley Bond Opportunities Fund. The fund, co-run by Peter Geikie-Cobb and Jeremy Palliser, aims to achieve a total return of 5-6%, combining both Income and Capital growth along with downside protection strategies. The fund will invest predominantly in highly liquid investments and is an Absolute Return Bond Fund.

## CHARLES STANLEY DIRECT

Charles Stanley Direct currently generates revenue from the following:

- Direct to client (D2C) platform
- Outsourcing to Fidelity
- Off platform business

Charles Stanley Direct is our full service Direct-to-client digital investment platform. It has been well received by the market since its launch in March 2013, and most recently won the Leading Innovator in Consumer Platforms award at the Aberdeen UK Platform Awards 2014. Since January 2015, the management structure has been over-hauled and costs in the business have been reviewed closely. The period of inevitably high start-up costs has now passed and following a thorough review of the business' cost structure, the operational gearing has been improved significantly.

Charles Stanley Direct's financial performance for the year ended 31 March 2015 is shown below.

| 2015 | Underlying profit/(loss) before tax | Total adjusting items | Reported profit/(loss) before tax |
|---|---|---|---|
| | £m | £m | £m |
| Revenue | 3.4 | - | 3.4 |
| Cost | (4.1) | (0.1) | (4.2) |
| Other income | - | - | - |
| Operating contribution | (0.7) | (0.1) | (0.8) |
| Allocated costs | (2.5) | - | (2.5) |
| Operating loss | (3.2) | (0.1) | (3.3) |

| 2014 | Underlying profit/(loss) before tax | Total adjusting items | Reported profit/(loss) before tax |
|---|---|---|---|
| | £m | £m | £m |
| Revenue | 2.0 | - | 2.0 |
| Cost | (2.1) | (1.3) | (3.4) |
| Other income | - | - | - |
| Operating contribution | 0.1 | (1.3) | (1.4) |
| Allocated costs | (2.3) | - | (2.3) |
| Operating loss | (2.4) | (1.3) | (3.7) |

The service is now on a more stable cost base for its forecast revenues. Revenues in the business have increased by 70.0% with some 7,141 new accounts opened in the year, taking the total to 20,595. Average client size is steadily improving at £63,000 per client. Underlying direct operating costs have increased year on year from £2.1 million in 2014 to £4.1 million, with allocated costs increasing by 8.6%. After allocated costs, the division reported an underlying operating loss of £3.2 million (2014: £2.4 million). The total Assets under Administration stood at £1.6 billion as at 31 March 2015 (2014: £1.4 billion).

Costs in the business have been significantly addressed in 2015 and the website has been reworked in closer alignment with the Charles Stanley Group with new brochureware offering a cleaner message to new clients. The service is already seeing greater interaction and improved client journeys to registration as a result. New client acquisition is served by a digital marketing strategy encompassing paid search, display advertising, re-targeting and social media advertising as well as by internal broker and Garrison transfers.

The service desk in Edinburgh and the investment helpdesk in Beverley continue to handle significant numbers of client calls on a monthly basis, as well as handling a large amount of the administration functions for the service. Digital efficiencies continue to be sought in the service centre processes and this efficiency drive will continue in the upcoming financial year. The progress that has been made to date has been pleasing.

**CHARLES STANLEY SECURITIES**

Charles Stanley Securities provides advisory, broking and corporate finance services for the smaller and mid-cap sector. It has experienced a decrease in revenue of 44.2% from £14.7 million in 2014 to £8.2 million in the current financial year primarily as a result of reduced corporate finance fees as well as lower secondary commissions in equity and bond trading. Although its costs have fallen as variable remuneration paid to staff has been reduced significantly, the decline in revenues has led to the division declaring a loss for the year of £1.7 million (2014: profit £1.1 million).

| **2015** | Underlying profit/(loss) before tax |
| --- | --- |
| **Total (continuing and discontinuing)** | £m |
| Revenue | 8.2 |
| Cost | (8.2) |
| Other income | - |
| Operating contribution | - |
| Allocated costs | (1.7) |
| Operating profit | (1.7) |
| | |
| **Continuing Operations** | |
| Revenue | 2.7 |
| Cost | (2.2) |
| Other income | - |
| Operating contribution | 0.5 |
| Allocated costs | (0.6) |
| Operating profit | (0.1) |

| **2014** | £m |
| --- | --- |
| Revenue | 14.7 |
| Cost | (11.1) |
| Other income | - |
| Operating contribution | 3.6 |
| Allocated costs | (2.5) |
| Operating profit | 1.1 |

As part of its strategic review of the Company, the Board concluded that Charles Stanley Securities was not a part of the core activities of the Company. In June the Company announced contracts had been exchanged with Panmure Gordon (UK) Limited, completing in July, for the sale of the division excluding the Equities Trading business.

For this reason the division is treated as a discontinued activity and included as an asset Held for sale in our accounts for the year ended 31 March 2015.

## Financial position

Charles Stanley & Co. Limited ("CSC") is an IFPRU 125K Limited Licence firm regulated by the Financial Conduct Authority. At 31 March 2015, the Company had regulatory capital resources of £58.4 million as shown in the table below.

| | 2015<br>£000's | 2014<br>£000's |
|---|---|---|
| Tier 1 capital resources | 61,255 | 69,400 |
| Prudential deductions* | (2,830) | (1,233) |
| Total capital resources | 58,425 | 68,167 |

* Prudential deductions include all intangible assets and certain deferred tax assets.

The Company monitors a range of capital and liquidity statistics on a daily, weekly or monthly basis. The Company's internal risk appetite is to maintain capital levels of at least 125% of the regulatory capital requirement. Capital levels fell below this internal target level during the year to 31 March 2015, arising from adverse trading results and movements in the defined benefit pension scheme. The Company's capital position was strengthened following the capital-raising in April 2015, and the Company continues to monitor capital levels carefully. The Company maintained a surplus of regulatory capital at all times during the year.

As required under FCA rules the Company 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 Company needs to hold. The last review conducted during Q1 2015 and signed off by the Board in April 2015. The ICAAP process includes the performance of a number of stress tests to determine the appropriate levels of regulatory capital and liquidity that the Company needs to hold. Capital forecasts are performed monthly and take into account expected dividends and intangible asset acquisitions as well as expected trading results.

The Company's Pillar III disclosures are published annually on our website (www.charles-stanley.co.uk/ investor-relations/pillar-3-disclosure) and provide further details about regulatory capital resources and requirements.

**Intangible assets**
Intangible assets arise from capitalisation of software, which is not an integral part of the related hardware or has been developed internally by the Company. At 31 March 2015, the total carrying value of intangible assets was £2.6 million (2014: £1.2 million). During the year £2.6million of internally generated software was acquired.

**Capital expenditure**
During the year the Company has continued to invest in its infrastructure, principally through the enhancement of ICT infrastructure through purchase of enhanced mainframe systems and the ongoing refurbishment of our offices. Improving the systems continues to be a focus of the Company, whether through improving existing systems or investing in new ones.

Further details on the Company's capital expenditure are provided in note 15.

**Defined benefit pension scheme**
The Company operates one defined benefit pension scheme, which has been closed to new members for several years. Each year actuarial valuations are carried out based on the position at 31 March 2015.

The fall in discount rates used to value the scheme's liabilities has outweighed growth in asset prices during the year. As a result the scheme deficit increased to £13.1 million at 31 March 2015 (2014: £6.9 million).

The Company has established a working party to examine the extent that pension risk can be mitigated, and expects to take positive steps in this regard during the current financial year.

Further details on the Company's defined benefit pension scheme and the assumptions underpinning the valuation are provided in note 23.

**Cash at bank**
Risk targets have been set to help the Company monitor the bank balances (see risks and uncertainties below). The Company experienced downward pressure on its cash balances during the year, arising from the adverse trading results noted above. Cash balances were £26.2 million at 31 March 2015.

The Company regularly reviews the counterparties with whom it holds both client and its own monies, and determines that all operations are in accordance with the policy set by the Treasury Committee.

## RISKS AND UNCERTAINTIES

A Board Risk Committee comprising of two independent Non-executive Directors was formed. In addition a Chief Risk Officer was appointed reporting to the Risk Committee and the CEO.

The Board has developed and approved a Risk Appetite Statement ("RAS"). The RAS is a core component to the Company's risk management framework and was developed taking into consideration the Company's strategic objectives, strategy and business plans. This new level of RAS articulation is driving the implementation of a more robust risk monitoring and risk reporting process, which continues to evolve. As the Company implements these processes, the Board will periodically review the RAS to ensure that it continues to reflect the risk appetite of the Company.

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

Set out below are the key risks relevant to the Company's long term performance.

| RISK | DESCRIPTION | KEY MITIGANTS AND CONTROLS |
|---|---|---|
| **Financial Risk** | Charles Stanley is committed to maintaining its financial strength in order to support its business objectives, meeting its regulatory capital requirements and providing shareholders with an acceptable return on their investment. | To achieve the Group's financial goals the following targets have been set:<br>▪ Return on Equity - 4% for 2016 rising to 7% in 2017<br>▪ Cash balances - £25m<br>▪ Regulatory Capital - 125% of the requirement + pension risk<br>▪ Dividend Cover - 2x earnings per Ordinary Share.<br>These are monitored by the Board on a regular basis. |
| **Acquisition/ Divestment Risk** | At present Charles Stanley has no acquisition plans, it is recognised that the Group maybe subject to acquisition-related risks in the future. As the Group restructures around its core wealth management strategy, certain peripheral activities and teams may be divested during 2015. | Any proposed acquisition should offer an immediate and sustainable increase in the Group's market share in the local or national market and have minimal execution risks associated with it and allow the Group to maintain prudent levels of liquidity and capital. A number of specific quantitative and qualitative parameters are used to assess the appropriateness of potential new acquisitions and divestments:<br>▪ Target operational cash breakeven point should not be expected to exceed 18 months<br>▪ Number of "significant" acquisitions should not generally exceed three deals per 18 months<br>▪ The target company should not be involved in any potential or existing litigation, which the Group's management consider to be unmanageable or which could impact on the Group's reputation and/or acquisition criteria.<br>▪ Divestments should fit in with the Group's strategy and aim to maximise the P&L impact whilst reducing the Group's capital requirements. In particular, attention should be paid to any long term risks and liabilities which might remain after the divestment. |
| **Customer Outcome Risk** | Treating customers fairly and achieving the right outcome for our customers is of paramount importance to the Group. | All clients are risk profiled to ensure the Group clearly defines, agrees and manages its clients' portfolios in accordance with these risk profiles and investment objectives. Suitability is a major focus for the Group which has quality assurance processes in place to asses suitability reviews performed by its Investment managers. Careful monitoring of investment decision making against the risk profile helps to ensure it achieves appropriate and suitable outcomes. The Group measures these outcomes in a number of ways including:<br>▪ Number and nature of complaints<br>▪ Internal client suitability file reviews<br>▪ Customer surveys |

| | | |
|---|---|---|
| **Operational Risk** | Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group operates in a business environment that is subject to significant technological, regulatory and economic changes. | Insurance cover is in place, which is reviewed on an annual basis to ensure that the amount of cover is appropriate to manage the impact of operational losses against the Group's capital reserves. The Group records and monitors its operational losses and near misses. Management is required to notify the Board of all significant operational incidents. Furthermore, management regularly report to the Board in relation to the total dealing and trading losses. |
| **Fraud Risk** | Fraud is one of the key risks the Group is exposed to and it includes, but is not limited to, incidents such as the following: external cyber-attacks, identity fraud and broker fraud. Charles Stanley is part of a cross-industry effort to combat fraudulent activity. Data-sharing initiatives have provided us with valuable intelligence to assist us in protecting our franchise and our clients. | The Group operates a number of IT platforms which have controls in place designed to prevent cyber-attacks, phishing and other relatively common occurrences. Whilst the Group has no appetite for any fraud-related incident, it recognises that certain attempts at fraud (i.e. those relating to external fraud) may be outside of its control. Consequently, specific risk parameters in relation to fraud are in place, which drive monitoring and reporting to the Board:<br>▪ In relation to internal fraud, the Board will be made aware of all instances of internal fraud attempts (whether successful or not) and any incidents.<br>▪ In relation to external fraud, the Board will be made aware of any unusual (but unsuccessful) external fraud attempt as well as all successful attempts. |
| **Financial Crime Risk** | Financial Crime risk is the risk of reduction in earnings and / or value, through financial or reputational loss, associated with financial crime and failure to comply with related regulatory obligations, these losses may include censure, fines or the cost of litigation. This includes risks associated with money laundering, market abuse, sanctions breaches, fraud, bribery and adverse media through monitoring of the client base. | The Compliance Committee serves as the principal forum for reviewing and challenging the management of financial crime risk including the overall strategy and performance and engagement with financial crime authorities. The Compliance Committee is accountable for ensuring that, at Group level, financial crime risks are effectively identified and managed within risk appetite and that strategies for financial crime prevention are effectively coordinated and implemented across the Group. |
| **People Risk** | The Group recognises that its reputation and financial success is dependent on the performance of its people. Charles Stanley personnel establish and maintain close relationships with our clients and the loss of key personnel can have a significant impact on the Group from an operational, reputational and financial perspective. | Charles Stanley has historically had low levels of staff turnover but key departures may be symptomatic of more fundamental issues within the organisation that require attention. Senior level departures will consequently trigger a formal exit review assessment. |
| **Credit and Counterparty Risk** | Charles Stanley is exposed to credit risk through the potential failure of its clients or counterparties to fulfil their contractual obligations. | The Group's Treasury Committee is responsible for the initial assessment and on-going monitoring of deposit taking counterparties. The Board has defined the following criteria, which govern how management manages the Group's credit and counterparty risk:<br>▪ Assets will only be placed and maintained with counterparties (i.e. authorised institutions or groups) that are deemed to be financially sound as determined by Charles Stanley's Treasury Committee.<br>▪ Client and Group cash held at any individual counterparty group or authorised institution should not exceed its respective counterparty limit set by the Treasury Committee unless a written approval has been provided by the Treasury Committee.<br>▪ Counterparty limits for the purpose of trading are set by the Market Exposure Committee (MEC)<br>▪ Counterparties with no set trading limits will be assessed on an individual basis at the time of the trade by the MEC.<br>▪ Breaches of any of these counterparty trading limits without approval will be escalated immediately to the MEC. |
| **Market Risk** | Charles Stanley does not undertake any propriety trading other than that arising from incidental dealing errors and therefore takes no market risk. Losses in relation to dealing errors are captured as operational losses. | A majority of the Group's cash is kept in Sterling across a number of banks, and limited foreign currency is only held to facilitate settlement and dealing activity on behalf of clients.<br>The Treasury committee manages the Group's account balances both in sterling and foreign currencies to its requirements and limits exposures to the firm's operational needs. |
| **Pension Risk** | Charles Stanley continues to support a defined benefit ("DB") pension scheme which accordingly exposes the firm to pension risk. The scheme is closed to new members and is regularly reviewed for viability. | The deficit level is monitored regularly and currently stands at £13.1m. Macroeconomic factors (e.g. long term bond yields) are also monitored and persistently negative macroeconomic trends that could impact on the DB scheme's investment performance are reported to the Board. The Risk Committee has set up a working group to take appropriate steps to mitigate future liabilities. |

| | | |
|---|---|---|
| **Regulatory Risk** | Charles Stanley operates in a heavily regulated financial services sector. Compliance with regulation is paramount to the Group, and management recognises that the Group undertakes numerous control-related activities to manage the Group's regulatory risk. | Management monitors developments in regulation, assesses the impact on the business and implements any changes that will be required to meet those requirements and ensure that the Group's capital levels meet or exceed the regulatory requirements. Periodic reviews are conducted internally to reduce the likelihood of significant regulatory breaches, which could result in regulatory censure or fines. |
| **Reputational Risk** | The Group has built a reputation as a high quality provider of investment management and client services. This has been carefully developed over many years and there is a risk that reputational damage could lead to a loss of its existing client base, which could possibly lead to financial loss. | The risk is monitored and managed by an emphasis on compliance with all aspects of relevant regulation. |
| **Conduct Risk** | The Group's conduct starts with 'the tone at the top' which is reflected in the standard of conduct which employees and associates hold themselves to. Conduct risk has been a major theme across the financial services industry and is at the heart of everything the Group does. | In order to evidence good conduct the Board has established a governance framework flowing down to the board committees and management processes which are designed to ensure that appropriate controls, checks and balances are in place with safety valves where decisions and processes can be challenged. |

## FUTURE DEVELOPMENTS

Charles Stanley has an enviable track record in relation to the quality and breadth of its private client wealth management services, its commitment to innovation and the scale of its operations. However, as the financial results for the past financial year show, its strategy and business model has failed to keep pace profitably with the challenges the external environment has posed in the form of increased competition, greater complexity in achieving clients' financial requirements and increased regulation.

Although the basic steps to return the Company to a sustainable level of profitability are not complex: focus on core strengths; eliminate loss making activities; increase revenues and control costs – the timescale for enacting them is likely to be a number of years because both client and staff relationships have to be managed sensitively. Moving too quickly on certain aspects will raise just as many risks as moving too slowly.

Having made changes to the management team, strengthened our balance sheet and defined our strategy, our focus over the next twelve months will be on execution. In particular we will:

1. Review our pricing architecture in conjunction with our service levels;
2. Review our compensation and incentivisation arrangements to ensure alignment of interests between client outcomes, shareholder returns and staff engagement;
3. Work to improve the co-ordination of the range of our activities, both front and back office, to improve client service and drive operating efficiencies; and
4. Dispose of our non-core activities, Charles Stanley Securities.

# DIRECTORS' REPORT
# FOR THE YEAR ENDED 31 MARCH 2015

The Directors submit their report and financial statements for the year ended 31 March 2015.

**Disclosure of information to Auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director as taken all the steps that ought to have taken as a director to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Directors**

The directors who served during the year were:
Sir David Howard Bt
M R I Lilwall
G Teper
A C Scott (appointed 09 April 2014)
P Abberley (appointed 09 December 2014)
B Money-Coutts (appointed 10 June 2015)
B Guerin (appointed 25 July 2014)
D Pusinelli (appointed 25 July 2014)
J H Rawlingson (resigned 07 January 2015)
E M Clark (resigned 31 March 2015)
M M Murphy (resigned 25 July 2014)
P C Nathan M.B.E (resigned 25 July 2014)
M Anderson (resigned 25 July 2014)
M G Bennett (resigned 25 July 2014)
J H S Akerman (resigned 25 July 2014)
C Harris-Deans (resigned 25 July 2014)
J Stewart-Smith (resigned 25 July 2014)

Anthony Scott, Paul Abberley and Ben Money-Coutts were appointed as directors at the time that they were appointed directors of the parent company, Charles Stanley Group Plc. Bridget Guerin and David Pusinelli, who are non-executive directors of Charles Stanley Group Plc, were appointed to the board on 25 July 2014 to facilitate their oversight of the group's principal operating subsidiary.

James Rawlingson and Martina Murphy resigned as directors following their resignation as employees of Charles Stanley Group. The other directors who resigned, all on 25 July 2014, did so as a consequence of a general reorganisation of the company's governance structures designed to improve focus and accountability.

**Auditor**

Pursuant to Section 487 of the Companies Act 2006, KPMG LLP will be deemed to be reappointed and will therefore continue in office.

**People**

The Company is aware that its reputation and success is due to the service provided to clients by highly qualified and committed staff. One of the organisation's key assets is its staff and it is policy to attract and retain the best people. Staff are consulted, where appropriate, when making decisions likely to affect their interests. We have a number of both informal and formal forums for staff and senior management, in addition to a formal appraisal system. For details on the staff numbers and costs refer to note 8 of the Financial Statements.

**Disabled employees**
Applications for employment made by disabled persons are given full and fair consideration, having regard to the particular aptitudes and abilities of the applicant. In the event of employees becoming disabled, the Company makes every effort to ensure the individuals' continuing employment within the Company through the provision of suitable equipment and arranging appropriate training as necessary. The Company ensures that, so far as is possible, the training, career development and promotion of disabled employees is identical to that of other staff members.

**Environment**
The Company continues to recognise its impact on the environment and takes steps to minimise it. Although our activities have only a comparatively small impact, we are aware that environmental risks and uncertainties impact to some extent on all companies. We have introduced a number of measures during the year to increase energy efficiency and reduce consumption.

**Company's policy for payment of creditors**
It is the Company's policy to pay stockbroking creditors on Settlement Day or when stock has been delivered, whichever is later, and to pay suppliers in accordance with their payment terms. Amounts due to trade creditors at the balance sheet date represent approximately 26 days' credit.

**Political and charitable contributions**
Charitable donations during the year amounted to £15,915 (2014: £5,861). No political donations were made during the year.

**Going concern**
The Company's business activities, performance and position, together with the risks it faces and the factors likely to affect its future development are set out in the Strategic Report on pages 2-23. In addition, note 2 to the consolidated financial statements provides further details.

The Company's forecasts and projections, taking into account possible adverse changes in trading performance, show that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Directors have considered the Company's prospects for a period exceeding 12 months from the date the financial statements are approved and accordingly continue to adopt the going concern basis for the preparation of the financial statements.

**Statement of Directors' responsibilities**
The Directors are responsible for preparing the Strategic Report, the Directors' report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law. 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

**Provision of information to auditor**

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's auditor in connection with preparing its report and to establish that the Company's auditor is aware of that information.

By order of the Board.

......................................................
**Julie Ung**
Secretary

Date: 21 July 2015
Company Registration No. 1903304 (England and Wales)

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHARLES STANLEY & CO LIMITED

We have audited the financial statements of Charles Stanley & Co Limited for the year ended 31 March 2015 set out on pages 28 to 69. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**
As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
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 .

**Opinion on financial statements**
In our opinion the financial statements:
• give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its profit for the year then ended;
• have been properly prepared in accordance with IFRSs as adopted by the EU; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 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.

Mike Peck

**Michael Peck (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
15 Canada Square
London E14 5GL
21 July 2015

## INCOME STATEMENT
## FOR THE YEAR ENDED 31 MARCH 2015

| | Note | 2015 £ | 2014 £ |
|---|---|---|---|
| *Continued Operations* | | | |
| REVENUE | 5 | **136,295,594** | 130,226,199 |
| Administrative expenses | | **(134,807,054)** | (127,881,973) |
| Other income | | **98,600** | 107,970 |
| **OPERATING PROFIT** | 6 | **1,587,140** | 2,452,196 |
| Gain on available-for-sale investments | 12 | **27,308** | 80,059 |
| Gain on Fund sale | | **1,200,000** | - |
| Finance income | 10 | **84,061** | 284,776 |
| Finance costs | 11 | **(73,202)** | (85,226) |
| **PROFIT BEFORE TAXATION** | | **2,825,307** | 2,731,805 |
| Income tax expense/(credit) | 13 | **(933,484)** | (753,069) |
| | | **1,891,823** | 1,978,736 |
| *Discontinued operations* | | | - |
| (Loss) / profit from discontinued operation | 25 | **(1,287,051)** | 1,962,607 |
| **Profit for the year attributable to equity shareholders** | | **604,772** | 3,941,343 |

The notes on pages 33 to 69 form part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 MARCH 2015

| | 2015<br>£ | 2014<br>£ |
|---|---|---|
| **(LOSS) / PROFIT FOR THE FINANCIAL YEAR** | **604,772** | 3,941,343 |
| Other comprehensive income | | |
| **Items that will never be reclassified to profit or loss** | | |
| Re-measurement of the defined benefit obligation | **(5,950,000)** | 2,290,000 |
| Related tax | **1,190,000** | (677,880) |
| | **(4,760,000)** | 1,612,120 |
| **Items that are or may be reclassified to profit or loss** | | |
| Available-for-sale financial assets – net change in fair value | **(455,738)** | 250,068 |
| Available-for-sale financial assets – reclassified to profit or loss | **519,202** | 59,752 |
| Related tax | **86,931** | 17,542 |
| | **150,395** | 327,362 |
| Other comprehensive income for the year, net of tax | **(4,609,605)** | 1,939,482 |
| Total comprehensive income for the year attributable to owners of the Company | **(4,004,833)** | 5,880,825 |

The notes on pages 33 to 69 form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION
## FOR THE YEAR ENDED 31 MARCH 2015

| | | 2015 | 2014 |
|---|---|---|---|
| | | £ | £ |
| **Assets** | | | |
| Non-current assets | | | |
| Intangible assets | 14 | **2,829,752** | 1,232,705 |
| Property, plant & equipment | 15 | **13,008,440** | 13,464,216 |
| Deferred tax asset | 21 | **2,690,281** | 1,005,820 |
| Available for sale investments | 16 | **5,504,625** | 5,934,124 |
| Investments in subsidiaries | 17 | **17** | 17 |
| Trade and other receivables | 18 | **419,459** | 1,382,055 |
| **Total non-current assets** | | **24,452,574** | 23,018,937 |
| Current assets | | | |
| Trade and other receivables | 18 | **294,683,276** | 241,464,607 |
| Held-for-trading investments | | **100,373** | 116,683 |
| Asset for sale | 26 | **507,469** | - |
| Cash and cash equivalents | 19 | **26,207,761** | 32,521,903 |
| **Total current assets** | | **321,498,879** | 274,103,193 |
| **Total assets** | | **345,951,453** | 297,122,130 |
| **Equity** | | | |
| Ordinary Shares | 22 | **2,900,000** | 2,900,000 |
| Revaluation Reserve | | **2,508,754** | 2,358,359 |
| Retained Earnings | | **58,382,923** | 66,499,576 |
| **Total equity attributable to equity holders of the Company** | | **63,791,677** | 71,757,935 |
| **Total equity** | | **63,791,677** | 71,757,935 |
| **Liabilities** | | | |
| Non-current liabilities | | | |
| Retirement benefit liabilities | 23 | **13,087,000** | 6,933,000 |
| Borrowings | 27 | **1,823,749** | 1,970,104 |
| **Total non-current liabilities** | | **14,910,749** | 8,903,104 |
| Current liabilities | | | |
| Trade and other payables | 20 | **267,004,353** | 215,907,955 |
| Borrowings | 27 | **150,000** | 150,000 |
| Current tax liabilities | | **94,674** | 403,136 |
| **Total current liabilities** | | **267,249,027** | 216,461,091 |
| **Total liabilities** | | **282,159,776** | 225,364,195 |
| **Total equity and liabilities** | | **345,951,453** | 297,122,130 |

The notes on pages 33 to 69 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by the board on 21 July 2015.

Paul Abberley
Chief Executive Officer

Ben Money-Coutts
Chief Financial Officer

Company Registration No. 1903304 (England and Wales)

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 MARCH 2015

| | Share Capital £ | Revaluation Reserve £ | Retained Earnings £ | Total £ |
|---|---|---|---|---|
| 1 April 2013 | 2,900,000 | 2,030,997 | 64,779,905 | 69,710,902 |
| Profit for the year | - | - | 3,941,343 | 3,941,343 |
| **Other comprehensive income for the year** | | | | |
| Revaluation of available-for-sale investments | - | 309,820 | - | 309,820 |
| Deferred tax on revaluation of available-for-sale investments | - | 17,542 | - | 17,542 |
| Retirement benefit scheme actuarial deficit | - | - | 2,290,000 | 2,290,000 |
| Deferred tax on retirement benefit scheme actuarial deficit | - | - | (677,880) | (677,880) |
| Dividends paid | - | - | (4,000,000) | (4,000,000) |
| Share options: Value of employee services | - | - | 166,208 | 166,208 |
| 31 March 2014 | 2,900,000 | 2,358,359 | 66,499,576 | 71,757,935 |
| Profit for the year | - | - | **604,772** | **604,772** |
| **Other comprehensive income for the year** | | | | |
| Revaluation of available-for-sale investments | - | **63,464** | - | **63,464** |
| Deferred tax on revaluation of available-for-sale investments | - | **86,931** | - | **86,931** |
| Retirement benefit scheme actuarial gain | - | - | **(5,950,000)** | **(5,950,000)** |
| Deferred tax on retirement benefit scheme actuarial gain | - | - | **1,190,000** | **1,190,000** |
| Dividends paid | - | - | **(4,000,000)** | **(4,000,000)** |
| Share options: Value of employee services | - | - | **38,575** | **38,575** |
| 31 March 2015 | **2,900,000** | **2,508,754** | **58,382,923** | **63,791,677** |

The notes on pages 33 to 69 form part of these financial statements.

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 MARCH 2015

| | Note | 2015<br>£ | 2014<br>£ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 24 | **(843,903)** | 7,425,025 |
| Interest received | | **84,061** | 284,776 |
| Interest paid | | **(73,202)** | (85,226) |
| Tax paid | | **(710,957)** | (2,384,222) |
| **Net cash from operating activities** | | **(1,544,001)** | 5,240,353 |
| | | | |
| **Cash flows from investing activities** | | | |
| Dividends received | | **98,600** | 107,970 |
| Purchase of intangible assets | | **(2,627,318)** | (625,264) |
| Purchase of property, plant and equipment | | **(2,865,338)** | (9,927,077) |
| Proceeds from disposal of available for sale investments | | **136,194** | 2,356,351 |
| Proceeds from disposal of business | | **750,000** | - |
| Purchase of available for sale investments | | **(115,924)** | (2,119,111) |
| **Net cash used in investing activities** | | **(4,623,786)** | (10,207,131) |
| | | | |
| **Cash flows from financing activities** | | | |
| Net Proceeds received from borrowings | | **-** | 2,250,000 |
| Repayment of borrowings | | **(146,355)** | (129,896) |
| **Net cash used in financing activities** | | **(146,355)** | 2,120,104 |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(6,314,142)** | (2,846,674) |
| | | | |
| **Cash and cash equivalents at start of year** | | **32,521,903** | 35,368,577 |
| | | | |
| **Cash and cash equivalents at end of year** | 19 | **26,207,761** | 32,521,903 |

The notes on pages 33 to 69 form part of these financial statements.

## 1. GENERAL INFORMATION

Charles Stanley & Co Limited ("the Company") is a subsidiary of Charles Stanley Group PLC ("the Group"). The Company provides stockbroking, corporate finance and investment services to retail and institutional clients.

The Company is regulated by the Financial Conduct Authority and its parent company is a public limited Company which is listed on the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is 25 Luke Street, London, EC2A 4AR.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation of financial statements

The financial statements of Charles Stanley & Co Limited have been presented and prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC Interpretations (IFRSs as adopted by the EU), and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial investments, and financial assets and financial liabilities at fair value through profit and loss.

### 2.2 Changes in accounting policy and disclosure

Except for the changes below, the Company has consistently followed the same accounting policies, presentation and methods of computation in these consolidated financial statements as applied in the Company's financial statements for the year ended 31 March 2014.

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 April 2014.

a) IFRS 12 Disclosures of Interests in Other Entities
The Company has adopted the amendments of IFRS 12 relating to the disclosure of interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a result, the Company has included disclosures of its holdings in structured entities (see note 29).

b) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (2013)
The Company has adopted the amendments to IAS 36 (2013). As a result, the Company has expanded its disclosures of recoverable amounts when they are based on fair values less costs of disposals and an impairment is recognised. Refer to note 14 for further details.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Changes in accounting policy and disclosure (continued)

The Company is assessing the potential impact on its consolidated financial statements resulting from the following new standards, which are currently not yet effective and are not yet endorsed by the EU.

a) IFRS 9 Financial Instruments
IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and measurement. It includes revised guidance on the classification and measurement of financial instruments. IFRS 9 is only effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

b) IFRS 15 Revenue from contracts with customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is only effective for periods beginning on or after 1 January 2018, with early adoption permitted.

Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods.

### 2.3 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 Company that makes strategic decisions.

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.

### 2.4 Foreign currency translation

Foreign currency transactions are translated into British pounds using the exchange rates prevailing at the dates of the transactions. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Property, plant and equipment

Freehold property is shown at fair value, based on periodic valuations by external independent providers, 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 items. 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 item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance 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 property 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 costs 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 assets' 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 within "other (losses)/gains – net" in the income statement.

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

### 2.6 Intangible assets

Computer software which is not an integral part of the related hardware or has been developed internally by the Company is recognised as an intangible asset when the Company 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 (3 years).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the nature of the instruments and the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

### 2.7.1 Classification

(a) 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 acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative 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. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

(c) 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.

### 2.7.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" are presented in the income statement within "other (losses)/gains – net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Company's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses on available for sale assets".

Interest on available for sale securities calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available for sale equity instruments are recognised in the income statement as part of other income when the Company's right to receive payment is established.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(a) Assets classified as available-for-sale
These include listed and unlisted securities. For listed securities the amount of the loss is measured as the difference between the asset's carrying value and its market value. For unlisted securities the amount of the loss is measured as the difference between the asset's carrying value and Directors' valuation. The cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the separate income statement on equity investments are reversed through equity. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its costs is objective evidence of impairment. If, in a subsequent period, the fair value of debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate income statement.

(b) Impairment testing of trade receivables is described in note 2.9.

### 2.9 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 in one year or less they are classified as current assets. If not, they are presented in non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.
The Company considers evidence of impairment at a specific asset level. All individual assets are assessed for specific impairment.
An impairment loss in respect of receivables is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit and loss and reflected in an allowance account against receivables.

### 2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash held at call with banks.

### 2.11 Segregated funds

Segregated funds are held by the Company in trust on behalf of clients in accordance with the client money rules of the Financial Services Authority and the funds are not shown on the face of the balance sheet as the Company is not beneficially entitled hereto.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.12 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. Account payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.13 Borrowings

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

### 2.14 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 tax is also 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 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 by 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Employee benefits

#### (a) Pension obligations

The Company operates two pension schemes - a defined benefit and a defined contribution scheme. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company 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. A defined benefit plan is a pension plan which is not a defined contribution plan. Typically defined benefit plans define 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 net charge to the income statement 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 obligations 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.

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

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (b) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.16 Revenue

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, rebates and discounts.

The Company 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 Company's activities as described below. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

(b) Fees
Investment management, administration and corporate finance retainer fees are recognised evenly over the period the service is provided. Corporate finance success fees are recognised when earned.
(c) Dividend income
Dividend income is recognised when the right to receive payment is established.

(d) Interest income
Interest income is recognised using the effective interest method.

The Company does not analyse performance by geographic segments internally as the Company's operations are entirely within the UK.

### 2.17 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 where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Dividend distribution

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

### 2.19 Investment in Subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

### 2.20 Discontinued operations

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

- Represents a separate major line of business or geographic area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidy acquired exclusively with a view to re-sale

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 OCI is re-presented as if the opinion had been discontinued from the start of the comparative year.

## 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Through its normal operations the Company is exposed to a number of risks, the most significant of which are market, credit and liquidity risks.

**Market risk**

Equity risk

The Company is exposed to equity market risk through its equity holdings. These comprise: i) available for sale financial investments, ii) trading portfolio assets and liabilities that arise from trading as principal and iii) the impact on investment management fees.

In common with the stress tests referred to in the parent Company's Operating and Financial Review, the Company 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 that is seen at year end.

i) Available for sale investments

Note 16 summarises the available for sale investments held at the year-end date, and the disposals and fair value movements made in the year.

A proportion of the Company's available for sale investments are unlisted.
A 10% increase/ decrease on the Company's investments would have an impact on reserves of £550,000 (2014: £593,000)

ii) Held for trading assets and liabilities

The Company's exposure to market risk on its held for trading positions is monitored daily by the finance department and reported to the appropriate Directors and senior management. Positions are monitored against limits set down by the compliance committee. Any breach of the limits is notified immediately to the compliance Director.

A 10% increase/ decrease in equity prices on trading assets and liabilities would increase/ decrease profit in the Income statement by £10,000 (2014: £12,000)

iii) Investment management fees

A 10% increase/ decrease in equity prices would increase/ decrease profit on investment management fees in the Income statement by £3.9 million (2014: £3.2 million)

The Company does not hold derivatives on its own account.

Foreign exchange risk

The table below summarises the Company's currency exposure arising from unmatched monetary assets or liabilities not denominated in the Company's functional currency:

## 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

**Net assets**

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Euros | 195,000 | 229,000 |
| US Dollars | 490,000 | 551,000 |
| Other currencies | 391,000 | 1,065,000 |
| Total | 1,076,000 | 1,845,000 |

The Company's activities are primarily denominated in British pounds and it does not enter into forward exchange contracts for hedging anticipated transactions.

Interest rate risk
The Company has interest bearing assets, principally cash and cash deposits. The Company 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 £524,000 higher. If interest rates had been 200 basis points lower, profit for the year would have been £84,000 lower.

**Credit risk**

This represents the risk of loss through default by counterparty. The most significant risk to the Company is either a client or market counterparty failing to settle a trade. Given the wide range of retail clients of the Company it is not considered that a material default by connected counterparties would arise. Other credit risks, such as Free Delivery or stock or cash, are not deemed to be significant as the Company has an effective credit control department to recover any monies or stock owed through default.

The credit control department 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 agents 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 custodians that the required funds in settlement will be wired to our applicable bank account. There have been no 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 Company has a Market Counterparty Working Group (comprising three Charles Stanley Group PLC Directors and other Charles Stanley senior managers as deemed necessary) that reviews exposures to market counterparties and banks on a daily basis. The working group also sets out exposure to limits to 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 credit ratings typically no lower than A. The list of approved banks is reviewed at least annually by the treasury committee. The Company has no concerns over the credit quality of these institutions.

## 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The following table of financial assets analyses amounts by ageing:

**As at 31 March 2015**

| | Neither due nor impaired | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|
| | | 0-3 months | 3-6 months | 6-12 months | Over 1 year | Carrying value |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade and other receivables | 254,491 | 6,439 | 705 | 307 | - | 261,942 |
| Cash and cash | 26,208 | - | - | - | - | 26,208 |
| | 280,699 | 6,439 | 705 | 307 | - | 288,150 |

As at 31 March 2014

| | Neither due nor impaired | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|
| | | 0-3 months | 3-6 months | 6-12 months | Over 1 year | Carrying value |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade and other receivables | 173,992 | 30,896 | 437 | 1,221 | - | 206,546 |
| Cash and cash | 32,522 | - | - | - | - | 32,522 |
| | 206,514 | 30,896 | 437 | 1,221 | - | 239,068 |

Excluded from the above is a provision for impairment of receivables where amounts have been fully provided for of £339,300.

**Liquidity risk**

This is the risk that the Company, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The Company maintains a mixture of cash and cash equivalents that is designed to meet the Company's operational and trading activities. The Company does not use the wholesale markets for any funding and is confident that it has sufficient liquidity for the foreseeable future. At 31 March 2015, the Company had £26.2 million in bank accounts and accordingly a high degree of liquidity.

The Company's liquidity risk is overwhelmingly short-term in nature and arises from the settlement of trades within the stockbroking business.

The treasury function 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. Our policy is to use a combination of high credit rated banks to deposit client money. This is done to guard against the risk of only using one bank.

The Company's financial instruments comprise borrowings, cash and liquid resources, and various items including trade debtors and trade creditors that arise directly from its operations. We review the credit quality of counterparties and we limit aggregate credit exposures accordingly.

The majority of short-term creditors arise from settlement of clients' trading activities, and it is the policy to

## 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

pay stockbroking creditors on Settlement Day or when the stock is delivered, whichever is later. The policy is also to pay suppliers in accordance with their payment terms.

The Company's financial liabilities comprise trade and other payables and financial liabilities which are all repayable on demand or within three months.

**Capital risk management**
The Company has an internal capital adequacy assessment process, as required by the Financial Conduct Authority, which it uses to manage capital. This assessment is Companywide and covers current capital requirements as well as projected capital requirements. The Company is satisfied that there is and will be sufficient capital to meet these requirements.

The process, which has been approved by the Board of Directors, includes both qualitative and quantitative analyses of the requirements, calculated using both Pillar 1 and Pillar 2 methodologies. Any changes to the Company's business activities are considered within this framework.

Capital adequacy is monitored daily by the Group's management for all regulated companies within the Group. Compliance with FCA regulatory requirements was maintained during the year.

As at 31 March 2015 the total available regulatory capital was £60.2 million, calculated under Pillar 1 of the Capital Requirements Directive.

**Fair value of financial instruments**

a) 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.

## 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

**Carrying amount**

| As at 31 March 2015 | Note | Held-for trading £ | Loans and receivables £ | Available -for-sale £ | Other financial liabilities £ | Total £ |
|---|---|---|---|---|---|---|
| Financial assets measured at fair value Available for sale investments | 16 | - | - | 5,504,626 | - | 5,504,626 |
| Financial assets at fair value through profit and loss - Listed investments | | 100,373 | - | - | - | 100,373 |
| Financial assets at fair value through profit and loss - Deferred Consideration | | - | 450,000 | - | - | 450,000 |
| Total | | 100,373 | 450,000 | 5,504,626 | - | 6,054,999 |
| Financial assets not measured at fair value | | | | | | |
| Trade and other receivables | 18 | - | 289,202,633 | - | - | 289,202,633 |
| Cash and cash equivalents | 19 | - | 26,207,761 | - | - | 26,207,761 |
| Total | | - | 315,410,394 | - | - | 315,410,394 |
| Financial liabilities not measured at fair value | | | | | | |
| Borrowings | 27 | - | - | - | 1,973,749 | 1,973,749 |
| Trade and other payables | 20 | - | - | - | 263,988,820 | 263,988,820 |
| **Total** | | - | - | - | 265,962,569 | 265,962,569 |

| As at 31 March 2015 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Financial assets measured at fair value Available for sale investments | 2,295,615 | - | 3,209,011 | 5,504,626 |
| Financial assets at fair value through profit and loss - Listed investments | 100,373 | - | - | 100,373 |
| Financial assets at fair value through profit and loss - Deferred Consideration | - | 450,000 | - | 450,000 |
| | 2,395,988 | 450,000 | 3,209,011 | 6,054,999 |

The carrying value of financial assets not held at fair value (cash and cash equivalents, trade receivables, other receivables, and trade and other payables) is not significantly different from the fair value.

## 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

**Carrying amount**

| As at 31 March 2014 | Note | Held-for trading £ | Loans and receivables £ | Available -for-sale £ | Other financial liabilities £ | Total £ |
|---|---|---|---|---|---|---|
| Financial assets measured at fair value Available for sale investments | 16 | - | - | 5,934,124 | - | 5,934,124 |
| Financial assets at fair value through profit and loss – listed investments | | 116,683 | - | - | - | 116,683 |
| Total | | 116,683 | - | 5,934,124 | - | 6,050,807 |
| Financial assets not measured at fair value | | | | | | |
| Trade and other receivables | 18 | - | 236,341,721 | - | - | 236,341,721 |
| Cash and cash equivalents | 19 | - | 32,521,903 | - | - | 32,521,903 |
| Total | | - | 268,863,624 | - | - | 268,863,624 |
| Financial liabilities not measured at fair value | | | | | | |
| Borrowings | 24 | - | - | - | 2,120,104 | 2,120,104 |
| Trade and other payables | 20 | - | - | - | 215,907,955 | 215,907,955 |
| | | - | - | - | 218,028,059 | 218,028,059 |

| As at 31 March 2014 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Financial assets measured at fair value Available for sale investments | 2,225,111 | - | 3,709,012 | 5,934,123 |
| Financial assets at fair value through profit and loss – listed investments | 116,683 | - | - | 116,683 |
| Total | 2,341,794 | - | 3,709,012 | 6,050,806 |

## 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

b) Measurement of fair values

i) Valuation techniques and significant unobservable inputs

Financial instruments measured at fair value

The table below analyses recurring fair value measurements for financial assets.

These 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 Company 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).

| **Performance Condition** | **Valuation Technique** | **Significant unobservable inputs** | **Inter-relationship between significant unobservable inputs and fair value** |
|---|---|---|---|
| Equity Securities: Euroclear | The Fair Value is determined by considering the Dividend Yield where the expected dividend is determined. | Expected dividend growth rate, which includes an adjustment for currency volatility (45%) | The estimated fair value would increase if the expected dividend growth rate was higher. |
| *Financial instruments not measured at fair value are all carried at amortised cost.* | | | |
| Trade and other receivables | Discounted cash flows | Not applicable | |
| Cash and cash equivalents | Discounted cash flows | Not applicable | |
| Borrowings | Discounted cash flows | Not applicable | |
| Trade and other payables | Discounted cash flows | Not applicable | |
| Deferred consideration | Percentage of funds under management | Management view that clients will not leave | The deferred consideration would decrease if funds under management were lower. |

There were no transfers between any of the levels of the fair value hierarchy during the year ended 31 March 2015.

## 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

ii) Level 3 fair values

Details of the determination of Level 3 fair value measurement are set out below.

| | **Equity securities - available-for-sale £** |
|---|---|
| Balance at 1 April 2014 | 3,709,011 |
| Total unrealised gains and losses for the period included in profit or loss | |
| Impairment | (500,000) |
| Total gains and losses for the period included in other comprehensive income: | |
| Net change in fair value of available-for-sale financial assets | - |
| Balance at 31 March 2015 | **3,209,011** |

The Company 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. Specific valuation techniques used to value the financial instrument grouped under level 3 include, discounting future cash flows and calculating the dividend yield. All valuations performed are presented to the Company's Directors for final approval. Significant valuation issues are reported to the Audit Committee.

**Equity securities – available-for-sale**

The level 3 balance comprises amounts relating to holdings in unlisted investments. At 31 March 2015 these unlisted investment had a fair value of £3.2 million (31 March 2014: £3.7 million). Included within this balance is the Company's holding of 6,030 Euroclear plc shares with a fair value of £3.1 million (31 March 2014: £3.1 million).

This fair value has been determined using a valuation technique that used significant unobservable inputs.

This was because the shares were not listed on an exchange, and there were no recent observable arm's length transactions in the shares.

For the Euroclear investment a 1% increase/decrease in the expected dividend yield would increase/decrease other comprehensive income in the statement of changes in equity by £20,000 (31 March 2014: £20,000).

**Contingent consideration**

The level 3 balance comprises an amount payable on the acquisition of Evercore Pan Asset capital Management Limited (Pan Asset).

At 31 March 2015 the fair value of the deferred consideration was £40k.

The fair value is determined using a percentage of Pan Asset's funds under management.

The significant unobservable input is management's view that no further clients will leave, which would decrease Pan Asset's funds under management, which in turn would reduce the contingent consideration payable.

A 1 % increase/decrease in funds under management would increase/decrease contingent consideration by £5k.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Revenue recognition
Fee income receivable is estimated based on current portfolio valuations, historical experience of debt collection and future expectations.

(b) Retirement benefit obligations
In consultation with its actuary the Company and the Group make estimates about a number of long term trends and market conditions to determine the value of the deficit on its retirement benefit 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 2015 resulted in an increase in the actuarial deficit of £6m which has been reflected in these financial statements.

(c) Available-for-sale investments
Unlisted available-for-sale investments include an investment in Euroclear plc. The fair value of this investment has been estimated using dividend yield.

During the period the investment in Masterlist shares was reviewed based on the net asset value of the operating entity. As a result the investment was revalued to a book value of nil.

No new information has become available that would require a change in the valuation of any further unlisted investments.

## 5. REVENUE INFORMATION

| | Continuing operations | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Investment Management Services** | **Charles Stanley Securities** | **Financial Services** | **CS Direct** | **Other** | **Discontinued operations** | **Total** |
| | **£** | **£** | **£** | **£** | **£** | **£** | **£** |
| **Year ended 31 March 2015** | | | | | | | |
| Fees | | | | | | | |
| Investment management | **56,557,964** | **-** | **1,688,685** | **-** | **-** | **-** | **58,246,649** |
| Administration | **19,223,619** | **45,435** | **6,495,768** | **2,539,145** | **-** | **120,433** | **28, 424,400** |
| Corporate finance | **-** | **-** | **-** | **-** | **-** | **4,536,096** | **4,536,096** |
| | **75,781,583** | **45,435** | **8,184,453** | **2,539,145** | **-** | **4,656,529** | **91,207,145** |
| Commission | **45,809,343** | **2,670,068** | **407,557** | **858,010** | **-** | **769,565** | **50,514,543** |
| Other income | **98,600** | **-** | **-** | **-** | **-** | **-** | **98,600** |
| Total for the year ended 31 March 2015 | **121,689,526** | **2,715,503** | **8,592,010** | **3,397,155** | **-** | **5,426,094** | **141,820,288** |
| Allocated expenses | **(72,254,989)** | **(2,242,841)** | **(7,678,446)** | **(4,227,497)** | **(50,497,873)** | **(5,964,087)** | **(142,865,733)** |
| Operating contribution | **49,434,537** | **472,662** | **913,564** | **(830,342)** | **(50,497,873)** | **(537,993)** | **(1,045,445)** |
| Allocated costs | **(40,722,357)** | **(563,831)** | **(2,919,828)** | **(2,456,427)** | **48,757,034** | **(1,091,185)** | **1,003,406** |
| Operating profit for the year ended 31 March 2015 | **8,712,180** | **(91,169)** | **(2,006,264)** | **(3,286,769)** | **(1,740,839)** | **(1,629,178)** | **(42,039)** |

| | Investment Management Services | Charles Stanley Securities | Financial Services | CS Direct | Other | Discontinued operations | Total |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ |
| Year ended 31 March 2014 | | | | | | | |
| Fees | | | | | | | |
| Investment management | 44,592,059 | - | 884,972 | - | - | - | 45,477,031 |
| Administration | 19,928,562 | 368,686 | 5,654,680 | 1,266,351 | - | 108,006 | 27,326,285 |
| Corporate finance | - | | - | - | - | 10,157,071 | 10,157,071 |
| | 64,520,621 | 368,686 | 6,539,652 | 1,266,351 | - | 10,265,077 | 82,960,387 |
| Commission | 53,203,425 | 3,154,248 | 420,295 | 752,921 | - | 867,612 | 58,398,501 |
| Other income | 107,970 | - | - | - | - | - | 107,970 |
| Total for the year ended 31 March 2014 | 117,832,016 | 3,522,934 | 6,959,947 | 2,019,272 | - | 11,132,689 | 141,466,858 |
| Administrative expenses | (66,621,688) | (4,514,418) | (6,033,045) | (3,408,155) | (48,028,891) | (6,591,734) | (135,197,931) |
| Operating contribution | 51,210,328 | 991,484 | 926,902 | (1,388,883) | (48,028,891) | 4,450,955 | 6,268,927 |
| Allocated costs | (40,803,653) | (537,054) | (2,437,037) | (2,259,032) | 48,028,891 | (1,992,115) | - |
| Operating profit | 10,406,675 | (1,528,538) | (1,510,135) | (3,647,915) | - | 2,548,840 | 6,268,927 |

## 6. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Depreciation of tangible fixed assets | **3,143,429** | 2,698,606 |
| Amortisation and impairment | **1,030,271** | 307,410 |
| Impairment of equity investment | **500,000** | - |
| Impairment of loan | **250,000** | - |
| Operating lease rentals | **2,701,428** | 2,012,487 |
| Management fees paid to group undertakings | **-** | 2,750,000 |
| (Gains)/losses arising on translation of foreign currency | **(76,336)** | 19,711 |
| (Profit)/loss on held for trading investments | **27,308** | 80,059 |
| Financial Services Compensation levy | **1,276,695** | 1,151,043 |

## 7. AUDITORS' REMUNERATION

| | 2015 | 2014 |
|---|---|---|
| | £ | £ |
| Fees payable to the company's auditor for the audit of the Company's annual accounts | **185,000** | 165,000 |

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed on a consolidated basis in the consolidated financial statements of the Company's Parent, Charles Stanley Group PLC.

## 8. STAFF COSTS

Staff costs for the company during the year:

| | Continuing operations | | Discontinuing operations | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | **£** | £ | **£** | £ |
| Wages and salaries | **49,387,110** | 45,499,164 | **2,696,821** | 4,172,568 |
| Social security costs | **5,125,235** | 4,944,423 | **333,833** | 297,298 |
| Other pension costs | **4,406,046** | 3,914,237 | **281,653** | 248,346 |
| Share options | **38,575** | 166,208 | **-** | - |
| Total | **58,956,966** | 54,254,032 | **3,312,307** | 4,718,212 |

| | **2015** | 2014 |
|---|---|---|
| | **No.** | No. |
| Employees (including Directors) | **869** | 779 |

## 9. DIRECTORS' REMUNERATION

| | **2015** | *2014* |
|---|---|---|
| | **£** | £ |
| Emoluments | 3,185,428 | 4,379,178 |

During the year retirement benefits accruing to directors were £123,235 (2014: £142,756) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £346,333 (2014: £607,488).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £43,000 (2014: £15,000).

## 10. FINANCE INCOME

| | **2015** | 2014 |
|---|---|---|
| | **£** | **£** |
| Interest receivable | 84,061 | 284,776 |

## 11. FINANCE COSTS

| | **2015** | 2014 |
|---|---|---|
| | **£** | **£** |
| On bank loans and overdrafts | 73,202 | 85,226 |

## 12. GAINS ON AVAILABLE FOR SALE INVESTMENTS

| | **2015** | 2014 |
|---|---|---|
| | **£** | **£** |
| Profit on disposal of investments | 27,308 | 80,059 |

## 13. TAXATION

| **Analysis of tax charge in the year** | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| **Current tax** (see note below) | | |
| UK corporation tax charge on profit for the year | **1,101,060** | 1,619,430 |
| Adjustments in respect of prior periods | **(46)** | (31,024) |
| **Total current tax** | **1,101,014** | 1,588,406 |
| **Deferred tax** | | |
| Deferred tax - current year movement | **(167,530)** | (249,104) |
| | **(167,530)** | (249,104) |
| **Tax on profit/(loss) on continuing operations** | **933,484** | 1,339,302 |

The tax charged for the year is more than the standard rate of corporation tax in the UK of 21%. The differences are explained below.

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Profit before tax from continuing operations | **2,825,307** | 5,280,645 |
| Profit before income tax is multiplied by the standard rate of tax of 21% (2014: 23%) | **593,314** | 1,214,548 |
| Effects of: | | |
| Expenses not deductible for tax purposes | **130,767** | 208,062 |
| Excess of capital allowances over depreciation | **246,851** | 203,459 |
| Income not subject to tax | **(22,030)** | (44,660) |
| Adjustments in respect of previous periods | **(46)** | (250,906) |
| Other adjustments | **(15,372)** | 8,799 |
| **Tax charge for the year** | **933,484** | 1,339,302 |

Reductions in the UK corporation tax rate from 23% to 21% (effective 1 April 2014) and to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly.

The deferred tax asset at 31 March 2015 has been calculated based on the rate of 20%, as substantively enacted at the balance sheet date.

## 14. INTANGIBLE ASSETS

| | Internally generated software £ |
|---|---|
| ***Cost*** | |
| At 1 April 2014 | 1,540,115 |
| Additions | 2,627,318 |
| **31 March 2015** | **4,167,433** |
| ***Amortisation*** | |
| At 1 April 2014 | 307,410 |
| Amortisation during the year | 1,030,271 |
| **31 March 2015** | **1,337,681** |
| ***Net book value*** | |
| **31 March 2015** | **2,829,752** |
| 31 March 2014 | 1,232,705 |

## 15. PROPERTY, PLANT & EQUIPMENT

| | Freehold £ | L/term Leasehold Premises £ | S/term Leasehold Premises £ | Motor Vehicles £ | Office Equipment £ | Total £ |
|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | |
| At 1 April 2014 | 4,643,656 | 2,669,879 | 9,173,371 | 27,113 | 15,091,006 | 31,605,025 |
| Additions | 59,516 | - | 791,651 | - | 2,014,169 | 2,865,336 |
| Disposals | - | (1,648,779) | (2,065,837) | (3,000) | (16,027) | (3,733,643) |
| **At 31 March 2015** | **4,703,172** | **1,021,100** | **7,899,185** | **24,113** | **17,089,148** | **30,736,718** |
| ***Depreciation*** | | | | | | |
| At 1 April 2014 | 123,088 | 1,849,119 | 4,952,282 | 20,610 | 11,195,710 | 18,140,809 |
| Charge for the year | 120,422 | 84,445 | 981,425 | 4,134 | 1,953,003 | 3,143,429 |
| Disposals | - | (1,625,160) | (1,911,998) | (2,775) | (16,027) | (3,555,960) |
| **At 31 March 2015** | **243,510** | **308,404** | **4,021,709** | **21,969** | **13,132,686** | **17,728,278** |
| ***Net Book Value*** | | | | | | |
| **At 31 March 2015** | **4,459,662** | **712,696** | **3,877,476** | **2,144** | **3,956,462** | **13,008,440** |
| At 31 March 2014 | 4,520,569 | 820,760 | 4,221,089 | 6,503 | 3,895,295 | 13,464,216 |

## 16. AVAILABLE FOR SALE INVESTMENTS

| | Listed Investment £ | Unlisted Investment £ | Total £ |
|---|---|---|---|
| **Cost** | | | |
| 1 April 2013 | 2,365,780 | 3,422,696 | 5,788,476 |
| Acquisitions | 2,119,111 | - | 2,119,111 |
| Disposal | (2,283,283) | - | (2,283,283) |
| Revaluation-equity | 23,505 | 286,315 | 309,820 |
| **31 March 2014** | **2,225,113** | **3,709,011** | **5,934,124** |
| **Acquisitions** | **135,024** | **-** | **135,024** |
| **Disposal** | **(127,986)** | **-** | **(127,986)** |
| **Revaluation-equity** | **63,464** | **-** | **63,464** |
| **Impairment** | **-** | **(500,000)** | **(500,000)** |
| **31 March 2015** | **2,295,615** | **3,209,011** | **5,504,626** |

The fair value of listed investments is determined by reference to quoted prices on active markets.

Listed investments include a £2.0 million holding in Gilts which is pledged to our clearing house.

Unlisted available for sale assets include an investment in Euroclear plc. The fair value of this investment has been estimated by the Directors using dividend yield.

Previous revaluation now realised on disposal amounted to £62,000 (2014: £140,000).

During the year, the value of the investment and loan in Masterlist was reviewed based on the net asset value of the operating entity. As a result, the value was impaired by £0.75 million from £1 million to £0.25 million. The impairment of the loan is set out in Note 18 in the non-current convertible loan line item.

No new information has become available that would require a change in the valuation of any further unlisted investments.

## 17. INVESTMENTS IN SUBSIDIARIES

| | 2015 £ | 2014 £ |
|---|---|---|
| Investments in subsidiaries - cost | **17** | 17 |

The percentage holding is as follows:

| Company | Country of registration or incorporation | Class of shares | % Held |
|---|---|---|---|
| **Subsidiary undertakings** | | | |
| Rock (Nominees) Limited | England | Ordinary | 100 |
| Exempt Nominees Limited | England | Ordinary | 100 |

## 17. INVESTMENTS IN SUBSIDIARIES (continued)

The aggregate amount of net assets and the results of these undertakings for the last relevant financial year were as follows:

| | Net Assets £ | Profit for the year £ |
|---|---|---|
| Rock (Nominees) Limited | 15 | - |
| Exempt Nominees Limited | 2 | - |
| | 17 | - |

The company is exempt from the obligation to prepare and deliver group accounts because it is included in the group accounts of the holding Company.

## 18. TRADE AND OTHER RECEIVABLES

| | **2015** | **2014** |
|---|---|---|
| | **£** | **£** |
| ***Current*** | | |
| Trade receivables | **254,935,903** | 199,031,238 |
| Amounts owed by parent and fellow subsidiary undertakings | **28,417,505** | 30,473,738 |
| Other receivables | **6,299,225** | 6,836,745 |
| Prepayments | **5,030,643** | 5,122,886 |
| *Total Current* | **294,683,276** | 241,464,607 |
| ***Non-current*** | | |
| Staff Loans | **169,459** | 847,294 |
| Convertible loan | **250,000** | 534,761 |
| *Total non-current* | **419,459** | 1,382,055 |
| *Total* | **295,102,735** | 242,846,662 |

## 19. CASH AND CASH EQUIVALENTS

| | **2015** | **2014** |
|---|---|---|
| | **£** | **£** |
| Cash at Bank | **26,207,761** | 32,521,903 |

## 20. TRADE AND OTHER PAYABLES

| | 2015 | 2014 |
|---|---|---|
| ***Current*** | **£** | £ |
| Trade payables | **246,380,642** | 191,819,151 |
| Amounts owed to group companies | **3,012,418** | 230,096 |
| Tax due to Inland Revenue & Customs | **2,990,260** | 2,951,732 |
| Other creditors | **4,229,284** | 7,978,859 |
| Accrued expenses | **10,391,749** | 12,928,117 |
| *Total* | **267,004,353** | 215,907,955 |

## 21. NET DEFERRED TAX ASSETS

| **Deferred tax assets** | **Employee benefits** £ | **Available for sale assets** £ | **Deferred capital allowances** £ | **Other timing differences** £ | **Total** £ |
|---|---|---|---|---|---|
| 1 April 2013 | 2,064,480 | (606,662) | (40,764) | - | 1,417,054 |
| Recognised in profit or loss | | | | | |
| Current year | - | - | 29,222 | - | 29,222 |
| Prior year | - | - | 219,882 | - | 219,882 |
| **Total** | - | - | 249,104 | - | 249,104 |
| Recognised in other comprehensive income | | | | | |
| Current year | (677,880) | 17,542 | - | - | (660,338) |
| **31 March 2014** | **1,386,600** | **(589,120)** | **208,340** | **-** | **1,005,820** |
| Recognised in profit or loss | | | | | |
| Current year | 40,800 | - | 126,730 | - | 167,530 |
| **Total** | 40,800 | - | 126,730 | - | 167,530 |
| Recognised in other comprehensive income | | | | | |
| Current year | 1,190,000 | 86,931 | - | - | 1,276,931 |
| Deferred tax assets transferred from group | - | - | - | 240,000 | 240,000 |
| **31 March 2015** | **2,617,400** | **(502,189)** | **335,070** | **240,000** | **2,690,281** |

During the year Pan Asset Capital Management Ltd's business was transferred to Charles Stanley & Co. Ltd, with the deferred tax asset also transferring to Charles Stanley & Co. Ltd. The deferred tax asset was previously recognised within Pan Asset Capital Management Ltd's Income Statement.

## 22. SHARE CAPITAL

| | 2015 | 2014 |
|---|---|---|
| | **£** | £ |
| ***Authorised*** | | |
| 5,000,000 Ordinary shares of £1 each | **5,000,000** | 5,000,000 |
| **Allotted, called up and fully paid** | | |
| 2,900,000 Ordinary shares of £1 each | **2,900,000** | 2,900,000 |

## 23. RETIREMENT BENEFIT LIABILITIES

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

The Company 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 pension plan assets to meet long term pension liabilities for some 74 past and 30 present employees. The level of retirement benefit is principally based on salary earned in the last three years of employment prior to leaving active service and is linked to changes in inflation following retirement.

The plan is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK.

The trustees of the plan are required to act in the best interests of the plan's beneficiaries. The appointment of the trustees is determined by the plan's trust documentation. It is policy that at least one third of all trustees should be nominated by the members.

A full actuarial valuation is currently being carried out as at 13 May 2014 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the plan is agreed between the Company and the trustees in line with those requirements. These in particular require the surplus/deficit to be calculated using conservative, as opposed to best estimate actuarial assumptions.

The actuarial valuation at 13 May 2011 showed a deficit of £1,989,000. The Company has agreed with the trustees that it will aim to eliminate the deficit over a period of 7 years from 13 May 2012 by the payment of annual contributions of £315,000 in respect of the deficit. In addition and in accordance with the actuarial valuation, the Company has agreed with the trustees that it will pay 25.5% of pensionable earnings in respect of the cost of accruing benefits and will meet expenses of the plan and levies to the Pension Protection Fund. Member contributions are payable at a rate of 3% (except for Directors) and this is included within the rate of 25.5%.

For the purposes of IAS 19 the preliminary results of the actuarial valuation as at 13 May 2014, which was carried out by a qualified actuary, has been updated on an approximate basis to 31 March 2015. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

**Amounts included in the Statement of Financial Position**

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| | **£'000** | £'000 | £'000 |
| Fair value of plan assets | **30,778** | 29,893 | 29,833 |
| Present valuation of defined benefit obligation | **(43,865)** | (36,826) | (38,809) |
| (Deficit)/surplus in scheme | **(13,087)** | (6,933) | (8,976) |
| Impact of asset ceiling | **-** | - | - |
| (Liability)/Asset to be recognised | **(13,087)** | (6,933) | (8,976) |
| Deferred tax | **2,617** | 1,387 | 2,064 |
| Net liability recognised | **(12,413)** | (5,546) | (6,912) |

The present value of the 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 net liability in the balance sheet as shown above.

## 23. RETIREMENT BENEFIT LIABILITIES (continued)

The projected unit credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the plan liabilities, whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In assessing this figure for the purpose of these disclosures, allowance has been made for future statutory revaluation of benefits up to retirement. At the balance sheet date the accumulated benefit obligation was £43,865,000.

All actuarial gains and losses are recognised in the year in which they occur in the consolidated statement of other comprehensive income (page 29).

The Company 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 IAS19 figures in respect of an asset ceiling or Minimum Funding Requirements as at 31 March 2015.

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

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Fair value of assets at 1 April | **29,893** | 29,833 |
| Interest income | **1,324** | 1,280 |
| Return on plan assets | **490** | 928 |
| Contributions by employer | **716** | 805 |
| Contributions by plan participants | **49** | 57 |
| Benefits paid, death in service insurance premiums and expenses | **(1,694)** | (3,010) |
| Fair value of assets at 31 March | **30,778** | 29,893 |

The actual return on the scheme assets over the year ended 31 March 2015 was £1,814,000 (2014: £2,208,000).

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

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Defined benefit obligation at 1 April | **36,826** | 38,809 |
| Current service cost | **610** | 707 |
| Interest cost | **1,634** | 1,677 |
| Employee contributions | **49** | 57 |
| Actuarial loss due to scheme experience | **(1,041)** | (882) |
| Actuarial loss due to changes in demographic assumptions | **(531)** | - |
| Actuarial (loss)/gain due to changes in financial assumptions | **8,012** | (532) |
| Benefits paid, death in service insurance premiums and expenses | **(1,694)** | (3,010) |
| Defined benefit obligation at 31 March | **43,865** | 36,826 |

There have been no plan amendments, curtailments or settlements in the year.

## 23. RETIREMENT BENEFIT LIABILITIES (continued)

### Defined benefit costs recognised in the income statement

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Current service cost | **610** | 707 |
| Net interest costs | **310** | 397 |
| Total expense | **920** | 1,104 |

### Defined benefit costs recognised in statement of comprehensive income

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | **£'000** | £'000 | £'000 | £'000 | £'000 |
| Return on plan assets | **490** | 928 | 1,581 | (725) | 805 |
| Experience gains and losses arising on the scheme liabilities | **1,041** | 882 | 271 | 473 | 1,049 |
| Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation | **531** | - | - | - | - |
| Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation | **(8,012)** | 532 | (4,668) | (2,453) | (421) |
| Adjustment related to previous years | - | (52) | - | - | - |
| Total amount recognised in statement of comprehensive income | **(5,950)** | 2,290 | (2,816) | (2,705) | 1,433 |

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | **£'000** | £'000 | £'000 | £'000 | £'000 |
| Equity | **23,749** | 21,676 | 16,837 | 14,343 | 12,638 |
| Bonds | **6,073** | 5,832 | 6,519 | 5,973 | 7,481 |
| Cash | **956** | 2,385 | 6,477 | 5,881 | 4,717 |
| Total assets | **30,778** | 29,893 | 29,833 | 26,197 | 24,836 |

### Assumptions:

| | ***2015*** | *2014* | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| | ***% per annum*** | *% per annum* | % per annum | % per annum | % per annum | % per annum |
| Inflation – RPI | **3.10** | 3.40 | 3.50 | 3.25 | 3.40 | 3.50 |
| Salary increases | **2.20** | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| Rate of discount - RPI | **3.20** | 4.50 | 4.45 | 5.05 | 5.55 | 5.66 |
| Allowance for pension in payment increases of RPI or 5% p.a. if less | **3.30** | 3.60 | 3.50 | 3.25 | 3.35 | 3.45 |
| Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less | **3.10** | 3.40 | 3.50 | 3.25 | 3.40 | 3.50 |

## 23. RETIREMENT BENEFIT LIABILITIES (continued)

The Occupational Pensions (Revaluation) Order 2010 issued in July 2010 confirmed the government's intention to move to using the Consumer Price Index ("CPI") rather than the Retail Price Index ("RPI") as the inflation measure for determining the minimum pension increases to be applied to the statutory index-linked features of retirement benefits. Charles Stanley has used RPI in calculating the liability for 2014.

The mortality assumptions adopted at 31 March 2015 are 100% of the standard tables S2PxA, Year of Birth, no age rating for males and females, projected using CMI_2013 converging to 1.50% p.a. These imply the following life expectancies:

| | Life expectancy at age 65 |
|---|---|
| Male retiring in 2015 | 22.7 years |
| Female retiring in 2015 | 24.7 years |
| Male retiring in 2035 | 24.9 years |
| Female retiring in 2035 | 27.0 years |

The fair value of assets shown above includes £1.0 million (2014: £1.3 million) of shares in Charles Stanley Group PLC. None of the other fair values include any property occupied by, or other assets used by the Group. All of the scheme assets have quoted market price in an active market with the exception of the trustee's bank account balance.

It is the policy of the trustees and the company to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the process to measure and manage risks inherent in the plan investment strategy are documented in the plan's Statement of Investment Principles.

There are no asset-liability matching strategies currently being used by the plan.

**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% | Increase by 4.9% |
| Rate of inflation | Increase of 0.25% | Increase by 1.4% |
| Rate of mortality | Increase in life expectancy of 1 year | Increase by 3.2% |

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, salary growth and pension increases. The average duration of the defined benefit obligation at the period ended 31 March 2015 is 20 years.

The plan typically exposes the Company to actuarial risks such as investment risk, interest rate risk, salary growth 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 increase 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 Company to the plan for the period commencing 1 April 2015 is £745,000.

## 24. RECONCILIATION OF NET PROFIT TO CASH GENERATED FROM OPERATIONS

| | 2015 £ | 2014 £ |
|---|---|---|
| Profit for the period | **1,196,128** | 5,280,645 |
| *Adjustments for:* | | |
| Depreciation | **3,143,429** | 2,698,606 |
| Amortisation and impairment of assets | **1,780,271** | 307,410 |
| Dividend income | **(98,600)** | (107,970) |
| Interest income | **(84,061)** | (284,776) |
| Interest expense | **73,202** | 85,226 |
| Loss on disposal of property, plant and equipment | **177,684** | - |
| Profit on disposal of available for sale investments | **(27,308)** | (80,059) |
| Proceeds on disposal of business | **(750,000)** | - |
| Share option cost | **38,575** | 166,208 |
| Retirement benefit scheme | **204,000** | 247,000 |
| *Changes in working capital:* | | |
| Decrease / (Increase) in held for trading investments | **16,310** | 54,172 |
| Decrease / (Increase) in trade and other receivables | **(57,369,933)** | 42,019,289 |
| (Decrease) / Increase in trade and other payables | **50,856,400** | (42,960,726) |
| Cash generated from operations | **(843,903)** | 7,425,025 |

## 25. DISCONTINUED OPERATIONS

In April 2015, the Company announced to the market that a Heads of Terms Agreement had been signed with Panmure Gordon (UK) Limited regarding the sale of Charles Stanley Securities (excluding the Equity Sales Trading operation). Charles Stanley Securities was not previously classified as held-for-sale or as a discontinued operation separately from continuing operations.

**Results from discontinued operations**

| | 2015 £ | 2014 £ |
|---|---|---|
| Revenue | **5,426,094** | 11,132,689 |
| Expenses | **(7,055,272)** | (8,583,849) |
| Results from operating activities | **(1,629,178)** | 2,548,840 |
| Income tax | **342,127** | (586,233) |
| (Loss) / Profit for the year | **(1,287,051)** | 1,962,607 |

## 25. DISCONTINUED OPERATIONS (continued)

**Cash flows from/(used in) discontinued operations**

| | 2015<br>£ | 2014<br>£ |
|---|---|---|
| Net cash used in operating activities | **(1,502,178)** | 2,397,840 |
| Net cash flow for the year | **(1,502,178)** | 2,397,840 |

**Effect of disposal on the financial position of the Company**

| | 2015<br>£ | 2014<br>£ |
|---|---|---|
| Trade and other receivables | **507,469** | 633,847 |
| Trade and other payables | **-** | - |
| Net assets and liabilities | **507,469** | 633,847 |

## 26. ASSET HELD FOR SALE

| | 2015<br>£ | 2014<br>£ |
|---|---|---|
| Trade and other receivables | **507,469** | 633,847 |
| Trade and other payables | **-** | - |
| Net assets and liabilities | **507,469** | 633,847 |

## 27. BORROWINGS

| | 2015<br>£ | 2014<br>£ |
|---|---|---|
| **Current** | | |
| Bank Loan | **150,000** | 150,000 |
| **Non-current** | | |
| Bank Loan | **1,823,749** | 1,970,104 |

## 28. LEASE COMMITMENTS

Operating leases

At 31 March 2015 the company had annual commitments under non-cancellable operating leases as follows:

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Not later than one year | 2,771,748 | 2,203,085 |
| Later than one year but not later than five years | 5,312,655 | 5,900,680 |
| Later than five years | 1,219,096 | 1,552,254 |

## 29. CONTROL

The parent and ultimate parent Company is Charles Stanley Group PLC, a company registered in England and Wales.

Charles Stanley Group PLC prepares group financial statements and copies can be obtained from the registered office shown on the company information page.

## 30. INVOLVEMENT WITH STRUCTURED ENTITIES

The Company holds fund management contracts over various investment Funds (all open-ended investment companies). 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 Company's objective is to generate fees from managing assets on behalf of third parties.

The net assets of each fund are details below:

| | **31 Mar 2015** | 31 Mar 2014 |
|---|---|---|
| | **£m** | £m |
| FP Matterley Regular High Income Fund | **69.9** | 59.5 |
| FP Matterley Equity Fund | **10.7** | 10.7 |
| FP Matterley International Growth Fund | **19.8** | 16.7 |
| FP Matterley UK & International Growth Fund | **100.1** | 80.7 |
| FP Matterley Undervalued Fund | - | 92.7 |
| PanDYNAMIC Defensive | **7.0** | 6.9 |
| PanDYNAMIC Balanced | **21.4** | 19.9 |
| The MOTIM Fund | **12.2** | 10.4 |
| The Helm Investment Fund | **12.8** | 15.1 |
| Total | **253.9** | 312.6 |

## 30. INVOLVEMENT WITH STRUCTURED ENTITIES (continued)

The following table presents the Company's total income from structured entities in the income statement for the year ended 31 March 2015.

| | **31 Mar 2015** | *31 Mar 2014* |
|---|---|---|
| | **£'000** | *£'000* |
| FP Matterley Regular High Income Fund | **564** | *510* |
| FP Matterley Equity Fund | **80** | *100* |
| FP Matterley International Growth Fund | **142** | *106* |
| FP Matterley UK & International Growth Fund | **925** | *695* |
| FP Matterley Undervalued Fund | **512** | *622* |
| The Helm Investment Fund | **24** | *17* |
| The MOTIM Fund | **23** | *17* |
| Total | **2,270** | 2,067 |

All the above income relates to the annual management charge.

On 8 September 2014 an agreement was reached to sell Matterley Undervalued Asset Fund to Milton Group. Initial consideration of £0.75 million was paid on completion of the transaction in December.

Further detail is provided in note 24.

## 31. POST BALANCE SHEET EVENTS

In May 2015 the Company signed a Heads of Terms Agreement with Panmure Gordon (UK) Limited regarding the sale of Charles Stanley Securities (excluding the Equity Sales Trading) operation. On 15 July 2015 the Company announced that completion of the disposal had taken place for an initial consideration of up to £1.5 million and a deferred payment in the 12 months following completion of up to £5.0 million, with the deferred element being dependent on the performance of those aspects of Charles Stanley Securities the subject of the disposal is that period.

## 32. CONTINGENT LIABILITIES

A competitor company has taken legal action against the Company in relation to staff who chose to leave them and join Charles Stanley, claiming losses of £1.6 million plus legal costs. The Company has lodged a robust defence both in relation to the merits of the claim itself and the quantum of the claim. Nevertheless, the Company has recognised a provision of £0.25 million (2014: £0.25 million) in respect of this potential liability. Significant judgement has had to be exercised in assessing the possible outcome of the claim and there is a risk that the ultimate loss will be greater than this amount due to the inherent uncertainty of litigation.

A recent ruling by the European Court of Justice indicated that under the European Working Time Directive, 'normal pay' for the purposes of calculating statutory holiday pay includes contractual commission as well as basic salary. The UK Employment Tribunal considered the implications for UK employers under the Working Time Directive 1998 and, as expected, has ruled in a similar manner to the European Courts of Justice, although it has also ruled that non-guaranteed overtime payments should be included for the purposes of calculating holiday pay entitlements. The decision by the UK Employment Tribunal is currently subject to appeal and, as yet, no hearing date has been set to consider it. Based on this information and advice to date, the Company does not expect the impact to be material. However, in the event that analysis, judgements and/or appeals are determined to ultimately be different, the Company may be exposed to a material additional liability.

## 33. RELATED PARTY TRANSACTIONS

Details of transactions between the Company and its fellow group companies which are related parties are disclosed below:

| | 31 Mar 2015 | *31 Mar 2014* |
|---|---|---|
| **Amounts due from group companies** | £ | £ |
| Charles Stanley Group PLC | **28,118,903** | *29,011,180* |
| Charles Stanley Financial Solutions Ltd | **298,602** | *222,210* |
| EBS Management PLC | - | *383,306* |
| Garrison Investment Analysis Ltd | - | *721.213* |
| Pan Asset Capital Management Ltd | - | *135,829* |
| Total | **28,417,505** | 30,473,738 |

| | 31 Mar 2015 | *31 Mar 2014* |
|---|---|---|
| **Amounts due to group companies** | £ | £ |
| Jobson James Financial Services Ltd | **(211,912)** | *(230,096)* |
| Garrison Investment Analysis Ltd | **(1,218,179)** | - |
| EBS Management PLC | **(1,282,200)** | - |
| Pan Asset Capital Management Ltd | **(300,127)** | - |
| Total | **(3,012,418)** | (230,096) |

During the course of the year the Company paid a dividend of £4,000,000 to Charles Stanley Group PLC (2014: £4,000,000) and a management charge of £2,100,000 (2014: £2,750,000) to Charles Stanley Group PLC. At the year end, a balance of £28,118,903 was outstanding and due to Charles Stanley & Co. Limited.

The Company's transactions with the Charles Stanley & Co. Limited Retirement Benefits Scheme are described in Note 23 above. At 31 March 2015 no monies were owed to or outstanding from the scheme (2014: £nil).

During the year, Charles Stanley & Co. Limited paid operational expenses totalling £3,472,811 (2014: £3,420,744) on behalf of Charles Stanley Financial Solutions Ltd. Charles Stanley & Co. Limited also paid Charles Stanley Financial Solutions Ltd a management fee of £75,000 (2014: £300,000). Charles Stanley Financial Solutions Ltd also provided funds to Charles Stanley & Co Ltd in consideration of expenses. At the year end, a balance of £298,602 was outstanding and due from Charles Stanley Financial Solutions Ltd.

During the year, Charles Stanley & Co Ltd paid operational expenses of £2,299,432 (2014: £1,712,256) on behalf of EBS. EBS also provided funds to Charles Stanley & Co Ltd in consideration of expenses. At the year end, a balance of £1,282,200 was outstanding and due from Charles Stanley & Co Limited.

During the year, Charles Stanley & Co. Limited paid operational expenses totalling £870,450 (2014: £833,545) on behalf of Garrison Investment Analysis Ltd (GIA). GIA also provided funds to Charles Stanley & Co Ltd in consideration of expenses. At the year end, a balance of £1,218,179 was outstanding and due from Charles Stanley & Co Limited.

## 33. RELATED PARTY TRANSACTIONS (continued)

During the year, Charles Stanley & Co Ltd paid operational expenses of £903,085 (2014: £135,828) on behalf of Pan Asset Capital Management. During the year, a deferred tax asset of £240,000 arising from PAN Asset Capital Management Ltd previous trading losses was transferred to Charles Stanley & Co. Limited. At the year end, a balance of £300,127 was outstanding and due from Charles Stanley & Co Limited.

During the year, Charles Stanley & Co. Limited paid operational expenses totalling £nil (2014: £181,868) on behalf of Jobson James Financial Services Ltd (JJF). At the year end, a balance of £211,912 was outstanding and due to JJF.