28 May 2020

Charles Stanley Group PLC

("Charles Stanley" or "the Company" or "the Group")

Final results for the year ended 31 March 2020

Strong results

Group well-placed to navigate COVID-19 challenges

Highlights

Summary

- Profits significantly improved
- Global COVID-19 pandemic brings challenges however the Group is operationally and financially well-positioned to navigate securely through the crisis and emerge strongly

Financial:

- Revenue up 11.5% to £173.0 million (2019: £155.2 million), with growth in all three divisions, Investment Management Services, Charles Stanley Direct and Financial Planning
- Underlying[1] profit before tax up 45.1% to £19.3 million (2019: £13.3 million), driven by repricing exercise completed a year ago
- Underlying[1] profit margin[2] increased to 11.7% (2019: 9.3%)
- Underlying[1] EPS up 47.1% to 31.41 pence per share (2019: 21.36 pence per share)
- Restructuring costs of £3.5 million (2019: £nil)
- Reported PBT up 57.3% to £17.3 million (2019: £11.0 million)
- Reported EPS up 58.0% to 28.03 pence per share (2019: 17.74 pence per share)
- Funds under Management and Administration ("FuMA") at year end were £20.2 billion (2019: £24.1 billion), reflecting impact of COVID-19 virus on global market:
    - average FuMA was stable at £24.2 billion (2019: £24.3 billion)
    - higher-value managed funds now comprise 65.3% of FuMA (2019: 60.6%)
    - FuMA up 6.4% since FY end to £21.5 billion at 30 April 2020, in line with market improvement
- Balance sheet strengthened; at 31 March 2020:
    - cash balances up 15.1% to £93.5 million (2019: £81.2 million) with net assets at £116.5 million (2019: £106.4 million)
    - regulatory capital solvency ratio of 189%
- Final dividend of 6.0 pence per share proposed, taking the total dividend to 9.0 pence per share (2019: 8.75 pence per share)

1. Underlying profit before tax and earnings per share excludes exceptional restructuring costs, non-cash share options and the amortisation of client lists.
2. This underlying pre-tax margin is based on the underlying profit before tax excluding the charge in respect of non-cash share options awarded to certain investment management teams under revised remuneration arrangements settled in 2017, expressed as a percentage of revenues.

Operational:

- Multi-year transformation programme launched a year ago is on track to deliver expected savings of £2.6 million in FY2021 and £4.5 million p.a. from FY2022:
    - single middle and back office created; will drive efficiencies and enhance customer service
    - programme to upgrade and reorganise IT infrastructure commenced
    - sales, distribution and marketing reorganised
- Investment Management Services increased average discretionary funds per certification staff despite the decline in stockmarket values
- Online execution-only service, Charles Stanley Direct, contributed second year of profits
- Financial Planning division expanded with recruitment of additional planners

Outlook:

- Decline in stockmarket values and interest rates will significantly reduce Group's revenue, although commission income currently proving resilient due to increased trading activity
- Beyond the immediate challenges created by COVID-19 crisis, the Board remains positive about prospects, which are supported by the Group's strong balance sheet and transformation programme

Paul Abberley, Chief Executive Officer, commented:

"These strong results reflect the benefits of our ongoing transformation programme. In particular, the substantial rise in profits was achieved by the repricing exercise completed last year to bring our rates into line with market.

COVID-19 is now the major challenge for everyone globally. I am pleased to report that the Group responded swiftly to safeguard the well-being of all our staff through remote-working while also maintaining a very high level of service to clients.

Trading results for the new financial year are expected to be significantly impacted by the crisis, with lower stockmarket valuations and reduced interest rates. However, Charles Stanley is well positioned to navigate through the challenges and to emerge strongly. We have a very robust balance sheet with significant cash balances, and we will continue to focus on transformation and growth initiatives."

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Notes to editors:

Charles Stanley provides holistic wealth management services to private clients, charities, trusts and institutions. Its origins trace back to 1792 and it is one of the oldest firms on the London Stock Exchange. The Company has a national presence, with 27 locations and 850 professionals. Its wealth management services are provided direct to clients and to intermediaries.

Financial highlights:

	2020	2019
Underlying profit before tax (£m)	19.3	13.3
Reported profit before tax (£m)	17.3	11.0
Underlying earnings per share (p)	31.41	21.36
Reported basic earnings per share (p)	28.03	17.74
Dividend per share (p)	9.0	8.75

Business highlights:

	2020	2019
FuMA[1] (£bn)	20.2	24.1
Discretionary funds (£bn)	12.0	13.1
Revenue (£m)	173.0	155.2
Total net assets (£m)	116.5	106.4
Cash balances	93.5	81.2

Revenue by division:

	2020	2019
Investment Management Services[2] (£m)	154.8	140.2
Charles Stanley Direct (£m)	9.5	7.7
Financial Planning (£m)	8.7	7.3

Financial calendar:

Results announcement	28 May 2020
Ex-dividend date for final dividend	11 June 2020
Final dividend record date	12 June 2020
Deadline for elections under DRIP[3]	19 June 2020
Annual General Meeting	9 July 2020
Final dividend payment date	16 July 2020

[1]Funds under Management and Administration.
[2]FY19 figures have been restated to reflect the amalgamation of the Asset Management division onto the Investment Management Services division with effect from 1 April 2019
[3]Dividend Reinvestment Plan.

Chairman's statement

Strong results underpin another year of delivering upon our strategic aims with impressive revenue growth across all divisions. Our Investment Management Services division delivered a significant increase in profits and we continue to invest in our sales distribution, financial planning and online dealing capabilities, all reflecting progressive steps in our strategic journey.

Recent months have been dominated by the COVID-19 pandemic, which has resulted in unprecedented emergency measures by governments. I am proud of the Group's exemplary response to this critical situation. Our IT department in particular has ensured the firm's operations have been unaffected as we moved to ensure staff safety while maintaining the smooth running of all our services for clients.

It is difficult to predict the full impact of the COVID-19 crisis on the UK economy and on our business. However, it is clear that comparatives for the new financial year will be far less favourable compared to the year just ended. Nonetheless, the Group is well placed, both operationally and financially, to withstand the impacts, so we look forward with confidence.

Financial results

Group revenues for the year ended 31 March 2020 increased by 11.5% to £173.0 million (2019: £155.2 million) with improvements across all divisions, in particular Investment Management Services where revenues rose by 10.4% to £154.8 million (2019: £140.2 million).

Reported profit before tax increased by 57.3% to £17.3 million, a significant improvement on the prior year (2019: £11.0 million).

Charles Stanley Direct, our online execution-only platform, contributed an increased record profit with £1.6 million (2019: £1.0 million), marking continued progress in a competitive marketplace.

Funds under Management and Administration ("FuMA") at 31 March 2020 were £20.2 billion (2019: £24.1 billion), a decrease on the prior year as the last financial quarter was affected by the impact on global markets of the COVID-19 virus. Despite this, the Group's average FuMA for the year was maintained at £24.2 billion (2019: £24.3 billion). Average FuMA for Discretionary Funds increased by 5.4% to £13.6 billion (2019: £12.9 billion), reflecting the Group's continued focus on growing its higher margin services.

The Group's cash balances, including Treasury Bills, remained strong, ending the year 15.1% higher at £93.5 million (2019: £81.2 million). Likewise our regulatory capital solvency ratio is robust at 189%.

Governance

We have continued to build upon Charles Stanley's existing effective governance structure. We put in place measures to meet the Senior Managers & Certification Regime (SMCR) which came into effect in December 2019 to reinforce individual accountability for conduct and competence and tightened up oversight structures. We also introduced enhanced and tailored training around conduct rules to underpin the certification framework.

Risk

There have been ongoing enhancements to our risk management and risk appetite framework. We have continued to improve systems and controls in order to be vigilant against the risks of cyber crime and fraud.

Our work to strengthen our operational resilience in the event of disruption has proved very valuable during the COVID-19 'lockdown' and enabled us to continue to operate and maintain the highest levels of service that our clients expect from us.

Finally, as part of the UK Financial Conduct Authority's ("FCA's") Internal Capital Adequacy Assessment Process ("ICAAP"), we continued to identify potential risks the business faces and assess how we govern and control them.

Culture
Staff engagement is very important to us and is one of our key measures of success. Despite the significant changes that have taken place throughout the organisation, I am delighted that we maintained our staff engagement levels, with a first quartile score of 75% in the latest staff engagement survey, compared to 76% in the prior year.

We made further progress in our drive to achieve enhanced diversity at senior level with 36.6% of female representation at senior management level, up from 30.0% last year. This exceeded our commitment under the HM Treasury Women in Finance Charter. As part of our 'Inclusion Through Innovation' Group work and our ESG commitment, we are taking part in The Investment Association's 'Investment20/20' initiative and are offering Year 13 students work experience opportunity. We hope this will help to inspire and attract more diverse talent into all aspects of our business.

Board changes
As previously announced, after many years of service to the Group, Gary Teper, previously Head of Investment Management, departed in May 2019. He leaves with our very best wishes and thanks.

Dividend
The Board is pleased to recommend a final dividend of 6.0 pence per share. Together with the interim dividend of 3.0 pence per share, this takes the total dividend for the year to 9.0 pence per share, an increase of 2.9% on the prior year (2019: 8.75 pence per share).

Outlook
The new financial year is likely to be challenging and there are significant uncertainties ahead, reflecting the still unfolding effects of the COVID-19 pandemic. Market values have declined sharply and interest rates have been cut. However, the steep market sell-off has led to greater market volatility and increased trading, so commission income is currently holding up well.

There are also opportunities for us in areas such as Financial Planning as people seek to deal with the current change in circumstances, and at Charles Stanley Direct, reflecting the increased move to digital services.

Charles Stanley is in a stronger position as a result of our ongoing transformation programme, and financially we are in robust shape. The Group generates good cash flows, carries no debt, and has a strong balance sheet and high level of regulatory capital. Therefore, despite the current challenges, we are in a position to continue to provide a first-class service to our clients and make further progress.

Finally, on behalf of the Board, I would like to extend our thanks to all our staff for their contribution to these excellent results, particularly in the current, exceptionally difficult conditions. I would also like to pay particular tribute to Paul Abberley, for his leadership during the year.

Sir David Howard
Chairman
27 May 2020

Chief Executive Officer's report

FY 2020 builds upon previous strong results with an encouraging improvement in underlying profit. In addition to business improvements, I am proud of the way the firm has responded to the COVID-19 pandemic. I am confident that we are well placed to improve on our successes when we emerge from the current crisis.

We have been delivering against our strategic objectives and have laid strong foundations to modify our management structures, creating a single middle and back office and improving the rate of top-line growth.

Financial performance

The Group's profitability continued to improve, with underlying profit before tax up 45.1% year-on-year to £19.3 million (2019: £13.3 million) and underlying earnings per share up by 47.1% to 31.41 pence.

On a reported basis, profit before tax increased by 57.3% to £17.3 million (2019: £11.0 million) and earnings per share rose by 58.0% to 28.03 pence (2019: 17.74 pence).

We remain focused on accelerating the improvement in our financial metrics to match the standard of delivery qualitatively across the business.

Strategy implementation

It has been a very encouraging year and the hard work behind our transformation and restructuring programme is delivering clear benefits and tangible results. We expect to see further improvements in operational efficiency and productivity over the coming year.

In our drive to remove silos and create an unified approach, we have begun to standardise processes throughout the organisation and harmonise the customer experience. A key element of this was the creation of a single middle and back office which was completed during the year. We have also streamlined our management and organisational structure and started our programme to outsource the management of IT infrastructure.

Our digital offering across the Group has been centralised and we have invested in new technology to empower our investment managers.

We are seeing the benefits of our successful repricing exercise which brought us in line with the rest of the market. Additionally, the proportion of FuMA which is discretionary managed continues to increase. Elsewhere we have seen continued progress in our online execution-only platform, Charles Stanley Direct, which achieved a 23.4% increase in revenues and 60% increase in profit. There has been good revenue growth in the Financial Planning division too, taking it one step closer to moving into profitability once initial investment costs are recouped.

We continue to deliver against our strategic vision measures, specifically achieving high levels of client satisfaction and consistent top quartile staff engagement scores. Our total shareholder return over the past three years has also been top quartile amongst our peer groups. This is pleasing given the backdrop of high levels of change.

Business transformation
The heightened uncertainty introduced by the COVID-19 crisis will make for a particularly challenging year ahead. A combination of strong teamwork, adaptability, rapid technology deployment and supportive clients enabled us to transition smoothly to the new temporary operating environment. I am grateful to all our stakeholders who were instrumental in enabling us to continue to serve our clients so effectively. Alongside the development of our service proposition, the transformation work we are doing means we will be better placed as we move ahead.

We will continue to focus on further improving operational efficiency across the Group, building upon the work already under way in our transformation programme. This is designed to enhance IT, customer service and middle and back office performance. Alongside this we are focused on revenue growth, understanding that a significant portion of revenues are linked to the level of financial markets via ad valorum fees, and a prolonged downturn in equity markets will negatively impact these.

Developing our service proposition will include a dedicated ESG project to enhance our investment process, marketing and proposition strategies. We have already launched ‘Investing with Conscience’, a socially responsible investing initiative available through our Charles Stanley Direct platform. As ever, our client-centric approach remains at the heart of the business and with it the objective to deliver high value, bespoke solutions, complemented by the adaptation and streamlining of services to meet the needs of a wider group of clients.

While there are challenges ahead, we remain focused on our growth plans and the Group is in a strong position to navigate securely through current uncertainties.

Paul Abberley
Chief Executive Officer
27 May 2020

The Chief Financial Officer’s review of the year
Charles Stanley delivered a good financial performance across all key metrics for the year ended 31 March 2020. This reflected both improved operations and relatively benign markets for all bar the last two months of the financial year when the COVID-19 crisis took hold.

Overview of financial year 2020 results
The Group’s reported revenues for the year were £173.0 million, representing an increase of 11.5% on the prior year. The increase was driven by the benefits of the repricing exercise concluded in 2019 and higher fee income from Financial Planning.

Underlying expenditure increased by 7.4% to £153.2 million (2019: £142.7 million). This was primarily a result of variable pay increases that are linked to revenue and profit levels.

Net finance costs of £0.6 million (2019: income of £1.5 million) have been recognised. The increase in the cost was mainly attributable to the change in accounting for leases on the adoption of IFRS 16.

Underlying profits increased by 45.1% to £19.3 million (2019: £13.3 million). Consequently, the underlying pre-tax profit margin (excluding the non-cash credit/charge for share options) improved to 11.7% from 9.3%.

Exceptional expenditure amounted to £2.0 million (2019: £3.1 million). Aside from the amortisation of client relationships which accounted for £1.2 million (2019: £1.1 million), £3.5 million concerned the transformation projects and £0.3 million was for the impairment of goodwill. These costs were offset by an exceptional credit of £3.0 million in relation to certain share options previously expensed but no longer expected to vest.

Reported profit before tax for the financial year was £17.3 million, a 57.3% increase on last year (2019: £11.0 million). The reported profit margin was 10.0% (2019: 7.1%).

Increased profits strengthened the Group’s balance sheet. At year end the Group had net assets of £116.5 million (2019: £106.4 million), net cash (including Treasury Bills) of £93.5 million (2019: £81.2 million) and regulatory capital resources at 189% of requirement.

Funds under Management and Administration
The Group’s revenue is substantially driven by the level of its FuMA. Average FuMA for the year was stable at £24.2 billion (2019: £24.3 billion). However, it declined sharply towards the financial year end because of the impact COVID-19 crisis had on global market values. Year-on-year the FTSE All Share index fell 21.9% and Charles Stanley’s FuMA fell by 16.2%.

FuMA movement

	2020	2019	Change
	£bn	£bn	%
As at 31 March			
Discretionary funds	12.0	13.1	(8.4)
Advisory Managed funds	1.2	1.5	(20.0)
Total managed funds	13.2	14.6	(9.6)
Advisory Dealing funds	1.0	1.3	(23.1)
Execution-only funds	6.0	8.2	(26.8)
Total administered funds	7.0	9.5	(26.3)
Total Funds under Management and Administration	20.2	24.1	(16.2)
MSCI WMA Private Investor Balanced Index	1,423	1,587	(10.3)

The mix of FuMA continues to shift toward the higher-value managed service propositions, with these accounting for 65.3% of FuMA at year end (2019: 60.6%). The benefit of these managed services to clients has been clearly demonstrated during the recent market collapse, with non-managed FuMA declining 25.7% between 31 December 2019 and 31 March 2020 by comparison to managed FuMA down 16.7%.

Results and performance

The following tables show the Group's financial performance for the year ended 31 March 2020 and for the prior year. These reconcile the underlying performance, which the Board considers to be the best reflection of the Group's success, to the statutory reported results. The difference comprises adjusting items, which are stripped out so as not to distort the underlying performance.

	Underlying Performance £m	Adjusting items £m	Reported performance £m
31 March 2020			
Revenue	173.0	–	173.0
Expenses	(153.2)	(2.0)	(155.2)
Other income	0.1	–	0.1
Operating profit/(loss)	19.9	(2.0)	17.9
Net finance income and other non-operating costs	(0.6)	–	(0.6)
Profit/(loss) before tax	19.3	(2.0)	17.3
Tax (expense)/credit	(3.4)	0.3	(3.1)
Profit/(loss) after tax	15.9	(1.7)	14.2
Basic earnings per share (p)	31.41	–	28.03
Pre-tax profit margin[1] (%)	11.7	–	10.0
31 March 2019			
Revenue	155.2	–	155.2
Expenses	(142.7)	(3.1)	(145.8)
Other income	0.1	–	0.1
Operating profit/(loss)	12.6	(3.1)	9.5
Net finance income and other non-operating income	0.7	0.8	1.5
Profit/(loss) before tax	13.3	(2.3)	11.0
Tax (expense)/credit	(2.4)	0.4	(2.0)
Profit/(loss) after tax	10.9	(1.9)	9.0
Basic earnings per share (p)	21.36	–	17.74
Pre-tax profit margin[1] (%)	9.3	–	7.1

1. The underlying pre-tax profit margin is based on the underlying profit before tax of £19.3 million (2019: £13.3 million) adjusted for the charge of £1.0 million (2019: £1.1 million) in respect of 40% of non-cash share-based option arrangements awarded to certain investment management teams under revised remuneration arrangements settled in 2017.

Revenue
Revenues grew by 11.5% to £173.0 million in FY 2020 (2019: £155.2 million). Given that average FuMA during the year was stable, this increase was largely the result of the benefits of the repricing exercise concluded in the prior year. This helped the overall revenue margin to increase from 64bps to 72bps.

The change in the composition of the Group's revenues compared to the prior year is shown in the tables below. Fee income now accounts for 71.2% of Group revenues and grew by 11.7% over the year to £123.1 million. Commission income rose by 8.4% to £39.8 million and interest income increased by 21.7% to £10.1 million.

	2020 £m	**2019 £m**
Fees	123.1	110.2
Commission	39.8	36.7
Interest and other income	10.1	8.3
Total	173.0	155.2

Underlying expenditure
Underlying expenditure increased by £10.5 million (7.4%) on the prior year to £153.2 million (2019: £142.7 million). The majority of this increase was accounted for by variable remuneration which rose by £6.8 million in line with higher revenues and profits. Other expenditure was up 4.0% to £95.2 million (2019: £91.5 million).

Underlying pre-tax profit
Underlying profit before tax improved significantly, increasing to £19.3 million (2019: £13.3 million). This is due to continued progress in the underlying business performance, with revenue growth exceeding the increase in costs.

Adjusting items
The Board considers underlying profit before tax and earnings per share to be better reflections of underlying business performance than the statutory figures reported in the consolidated financial statements. To calculate the underlying results, the Board has excluded certain adjusting items totalling a net charge of £2.0 million (2019: £2.3 million). An explanation of these adjusting items, together with a reconciliation of profits, is provided below:

	2020 £m	**2019 £m**
Underlying profit before tax	19.3	13.3
Restructuring costs	(3.5)	–
Investment Management Services non-cash share options[1]	3.0	(1.7)
Amortisation of client relationships[1]	(1.2)	(1.1)
Impairment of goodwill	(0.3)	–
Net other one-off charges/(gains) in prior year	–	0.5
Net charge from adjusting items	(2.0)	(2.3)
Reported profit before tax	**17.3**	**11.0**

[1]These adjusting items are included within administrative expenses in the Consolidated income statement.

Restructuring costs (£3.5 million charge)
A year ago we announced a multi-year transformation programme to improve productivity and operational efficiency. This programme has a number of elements to it including enhancing IT, customer service and back and middle office performance. We estimated that it would take up to three years to implement at a total cost of around £9.5 million and yield annualised benefits of approximately £4.5 million.

In the financial year under review, we incurred exceptional costs of £3.5 million relating to the programme. Approximately half of that cost was incurred in outsourcing our IT infrastructure while the other half related to the creation of a centralised middle office and the organisational redesign of parts of the front office. Owing to the outbreak of COVID-19 and move to home office working, we have deliberately made minor delays to elements of the outsource hand-over and will continue to bear some double running costs in the current financial year, but overall it remains on course. We also see opportunities for leveraging the outsource arrangements further. Similarly, the functional and organisational redesign remains on course. With the infrastructure of this in place, the challenge is now to implement greater process standardisation across the Group and realise productivity improvements as we do so.

Our current expectation is that the overall cost of implementation is likely to be less than originally anticipated with the majority of the balance to be incurred in the current financial year. We are, however, reviewing the level of our spend on digital development with a view to increasing the pace of that. Social distancing and working from home have not only proved how well the technology can work, but have also accelerated the demand for more to be done both to make it easier for clients to interact with us and for further improving our own working practices.

We remain on course to deliver annualised benefits from the transformation projects of £4.5 million per annum from FY22 onwards, including approximately £2.6 million for the year ending 31 March 2021.

Investment Management Services non-cash share options (£3.0 million credit)
In 2017, shareholders approved the terms of a share option scheme for employed investment managers over a total of 2,412,725 shares. Of these, 40% vest unconditionally on the publication of the results for the year ended 31 March 2020, whereas the residual 60% are conditional upon these investment managers collectively achieving a 15% net margin by no later than 31 March 2022. The Company had been accruing a charge through underlying expenses in anticipation of these options vesting, but in view of the recent budget and outer year forecasts it is not likely that these options will vest. Furthermore, the sharp decline in FuMA in last quarter of the financial year and the impact that this is likely to have on revenues and overall profitability, vesting, though possible, is no longer likely. Consequently, the entirety of the accrual has been written back and, in view of its materiality to overall profits, treated as an adjusting item.

Amortisation of client relationships (£1.2 million charge)
Payments made for the introduction of customer relationships that are deemed to be intangible assets are capitalised and amortised over their useful life, which has been assessed to be ten years. This amortisation charge has been excluded from the underlying profit since it is a significant non-cash item.

Impairment of goodwill (£0.3 million charge)
An impairment charge has been made for goodwill relating to the Isle of Wight client book, originally purchased in 2001. The impairment of £0.3 million reduced the carrying value of this cash generating unit (CGU) to nil. The reason for the impairment has not been the loss of clients but the closure of the branch, combined with the subsequent retirement and departure of the remaining investment managers.

Net other one-off charges/(gains) in prior year (£0.5 million credit)
The net credit of £0.5 million recognised as an adjusting item in the prior financial year consisted of the gains arising on the sale of freehold property (£0.3 million) and the reversal of impairment of Charles Stanley Financial Solutions Limited ("CSFS") loan notes which were repaid in full (£0.5 million). These were offset by a charge of £0.3 million in respect of the expected cost of equalisation of guaranteed minimum pensions for the defined benefit pension scheme.

Divisional reviews

The tables below show the underlying results broken into the Group's three main operating divisions: Investment Management Services, Charles Stanley Direct and Financial Planning.

	Investment Management Services	Charles Stanley Direct	Financial Planning	Underlying performance
	£m	£m	£m	£m
31 March 2020				
Revenue	154.8	9.5	8.7	173.0
Expenditure	(131.5)	(7.9)	(13.8)	(153.2)
Other income	0.1	–	–	0.1
Operating profit/(loss)	23.4	1.6	(5.1)	19.9
Net finance income and other non-operating costs	(0.6)	–	–	(0.6)
Profit/(loss) before tax	22.8	1.6	(5.1)	19.3

	Investment Management Services[1]	Charles Stanley Direct	Financial Planning	Underlying performance
	£m	£m	£m	£m
31 March 2019				
Revenue	140.2	7.7	7.3	155.2
Expenditure	(125.3)	(6.7)	(10.7)	(142.7)
Other income	0.1	–	–	0.1
Operating profit/(loss)	15.0	1.0	(3.4)	12.6
Net finance income and other non-operating income	0.6	–	0.1	0.7
Profit/(loss) before tax	15.6	1.0	(3.3)	13.3

1. The FY 2019 figures have been restated to reflect the amalgamation of the Asset Management division into the Investment Management Services division with effect from 1 April 2019.

Investment Management Services

Trading review
The financial performance of the Investment Management Services division is largely driven by the value and mix of FuMA, the revenue margin earned on these assets and the operating costs associated with managing them, comprising both fixed and variable costs.

	2020 £bn	2019[2] £bn
Average FuMA	20.7	21.0

	2020 £m	2019 £m
Revenue	154.8	140.2
Direct costs:		
Fixed staff costs	(20.9)	(21.8)
Variable staff costs	(48.2)	(41.7)
IMs share option charge	(1.0)	(1.1)
Other direct operating expenses	(12.4)	(17.5)
Other income	0.1	0.1
Contribution	72.4	58.2
Allocated costs	(49.0)	(43.2)
Operating profit	23.4	15.0

KPIs:	2020	2019
Average discretionary funds per Certification Staff	£61.3m	£61.1m
Discretionary funds as a percent of total FuMA	69.8%	63.3%
Discretionary average client account size	£294k	£329k
Discretionary revenue margin	87bps	81bps
Total revenue margin	75bps	67bps
Staff costs to revenue ratio[1]	44.6%	45.3%
Other costs to revenue ratio	39.6%	43.3%
Operating margin[1]	15.8%	11.5%

[1] Excluding the charge for the investment managers' share options. The credit is in respect to the 60% of the non-cash share options which are no longer expected to vest.
[2] The figures for FY 2019 have been restated to reflect the amalgamation of the Asset Management division into the Investment Management Services division with effect from 1 April 2019

The division's total FuMA of £17.2 billion at 31 March 2020 was down 16.9% compared to the prior year primarily as a result of the market decline in the last two months. Average FuMA decreased marginally by 1.4% to £20.7 billion (2019: £21.0 billion). Underlying the change in total FuMA is an improvement in the division's asset mix, with Discretionary funds now representing 69.8% (2019: 63.3%). Together with a reduction in the number of Certification Staff employed in the division, this has resulted in an increase in the average discretionary funds per Certification Staff, despite the drop-off in market values.

Revenues for the division rose by £14.6 million (10.4%) as a consequence of the full-year benefits of the repricing exercise completed in the prior year, improved asset mix and increased interest income.

The division's total costs increased by 4.9% during the year to £131.5 million. This was due to the combination of higher variable remuneration and allocated central costs.

The division's overall operating margins increased to 15.8% (2019: 11.5%).

Charles Stanley Direct

Trading review

As an online platform, Charles Stanley Direct's financial performance is highly operationally geared both to the value of AuA on the platform and to interest rates.

	2020	**2019**
	£m	**£m**
Revenue	9.5	7.7
Direct costs:		
Fixed staff costs	(0.9)	(1.4)
Variable staff costs	(0.2)	(0.1)
Other direct operating expenses	(2.9)	(1.8)
Contribution	5.5	4.4
Allocated costs	(3.9)	(3.4)
Operating profit	1.6	1.0

KPIs:	**2020**	**2019**
AuA growth	(10.0%)	11.1%
Revenue margin	30bps	26bps
Operating margin	16.8%	13.0%

Average FuMA increased by 6.9% to £3.1 billion in FY 2020 (2019: £2.9 billion). At the end of December 2019 the division's assets had grown by 8.8% but then fell 18.0% in the last quarter to £2.7 billion at 31 March 2020 as the FTSE All Share index dropped 26.0%.

	2020	**2019**
	£bn	**£bn**
Average AuA:		
Charles Stanley Direct	2.8	2.5
Charles Stanley Investment Choices	0.3	0.4
Total	3.1	2.9

Revenues for the year grew by 23.4%, reflecting the benefits of the repricing programme completed the previous year and higher interest income. It was also pleasing to see a near doubling of commission income in the fourth quarter, as market volatility led to greater trading activity and helped offset pressure on ad valorum charges. While costs, especially related to IT systems, increased during the year, overall profits improved by 60% to £1.6 million (2019: £1.0 million).

Financial Planning

Trading review

The Group has continued to invest in its Financial Planning division as a core component of its wealth management offering to clients. This has led to revenues (excluding investment management fees which are credited to the Investment Management Services division) growing by 13.7%. However, costs have also increased as a result of the recruitment of additional planners who typically take up to 24 months to achieve full productivity, and this has led to a reduced contribution, and after the absorption of a larger share of central overheads, a reported operating loss of £5.1 million (2019: £3.4 million).

	2020 £m	2019 £m
Revenue	8.7	7.3
Direct costs:		
Fixed staff costs	(6.7)	(5.1)
Variable staff costs	(1.7)	(1.4)
Other direct operating expenses	(2.2)	(1.7)
Contribution	(1.9)	(0.9)
Allocated costs	(3.2)	(2.5)
Operating loss	(5.1)	(3.4)

KPIs:	2020	2019
Average number of financial planners	27	21
Revenue per financial planner[1]	£330k	£340k
Operating margin	(58.6%)	(46.6%)

1. This calculation is based on annualised revenues divided by average number of financial planners in the year.

Financial Planning's loss has been the expected near-term consequence of investment made. Once new planners reach full productivity, the Group should benefit from greater asset inflows, greater share of wallet and enhanced customer retention as the service satisfies a fundamental client demand. In turn, this should lead to the division generating profits.

Support Functions

The costs incurred by the Group's Support Functions are either charged directly to the three main operating divisions, such as for market data costs, or recharged as an allocated cost. Support Functions costs were £52.6 million in FY 2020, reflecting an increase of 8.5% on the prior year. The main drivers of the increase were: the creation of the new middle office with a number of staff moving out of front office divisions into this area; investment in the Group's distribution capabilities; and a higher discretionary bonus pool reflecting the improved Group performance.

Taxation

The corporation tax charge for the year was £3.1 million (2019: £2.0 million), representing an effective tax rate of 17.9% (2019: 18.2%). A detailed reconciliation between the standard and effective rate of corporation tax is provided in note 13 of the Consolidated financial statements.

Earnings per share

The Group's reported basic earnings per share for the year was 28.03 pence (2019: 17.74 pence). The underlying basic earnings per share increased from 21.36 pence to 31.41 pence.

Financial position

The Group maintained its strong financial position with total net assets at 31 March 2020 of £116.5 million (2019: £106.4 million). Cash resources including Treasury Bills amounted to £93.5 million (2019: £81.2 million).

The Group operates a defined benefit pension scheme, which was closed to new members in 1998 and also closed to further accruals for the remaining 25 active members at 31 March 2016. The most recent actuarial assessment of the Group's defined benefit scheme's liabilities showed a deficit at 31 March 2020 of £5.1 million (2019: £6.8 million). The decrease in the scheme's deficit is attributable to changes in actuarial assumptions, investment performance and contributions made by the Group to the scheme.

Regulatory capital resources

Charles Stanley & Co. Limited (CSC), the Group's main operating subsidiary, is an IFPRU 125k Limited Licence Firm regulated by the FCA. In view of this, the Group is classified as a regulated group and subject to the same regime. At 31 March 2020, the Group had regulatory capital resources of £94.1 million (2019: £82.9 million) and its regulatory capital solvency ratio stood at 189% (2019: 214%).

Regulatory capital resources

	2020	**2019**
	£m	**£m**
Ordinary share capital	12.5	12.5
Share premium	5.2	4.6
Retained earnings	77.1	69.1
Other reserves	15.2	15.2
Regulatory adjustments	(15.9)	(18.5)
Total regulatory capital resources	94.1	82.9

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

The Group maintains an Internal Capital Adequacy Assessment Process ("ICAAP"), which includes performing a range of stress tests to determine the appropriate level of regulatory capital and liquidity that the Group needs to hold. The last full review of the ICAAP conducted and signed off by the Board was in October 2019 although aspects of it, specifically operational risks, stress testing and reverse stress testing, have been updated in light of the COVID-19 crisis. Regulatory capital forecasts are performed monthly and take into account expected dividends and intangible asset acquisitions and disposals, as well as budgeted and forecast trading results.

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

Financial outlook
Since the financial year end there has been a slight recovery in markets, which has led to a 6.4% rise in FuMA to £21.5 billion at the end of April 2020 compared to 31 March 2020.

Looking ahead, there are significant uncertainties, with the full impact of the COVID-19 pandemic hard to predict with certainty. Depressed market values and lower interest rates will significantly reduce our revenues and this, in turn will impact profits since between 55%-65% of our costs are fixed or semi-fixed. While the deterioration of our fee-based revenue since February 2020 has been cushioned to some extent by our commission income, which has benefited from volatile markets, it represents about 23% of revenues, so by no means provides a full counterweight.

It seems clear that governments and their central banks are prepared to provide significant sums to support economies, which has helped to underpin the mini-recovery in markets since March. However, in so doing, interest rates have been cut significantly and are likely to remain low for some time.

We believe that service-based companies such as Charles Stanley are unlikely to return to the same ways of operating as occurred previously. We have demonstrated that flexible remote working is compatible with delivering a high level of client service, and in many ways, is more productive. In order to capture the full benefits, we will need to invest more rapidly in our IT systems, both to improve remote working capabilities, and more importantly to enhance the client interface and experience. This is critical because the ability to have face-to-face meetings is likely to diminish, not least since many of our clients are elderly and more vulnerable. In addition, there may be opportunities to rationalise our real estate footprint and many of the costs associated with it.

We are also aware that in environments of general financial stress and market dislocation, there will be opportunities to gain market share for those companies with the financial strength to take a measured approach. While there are challenges ahead, we believe that Charles Stanley is well placed financially and operationally to navigate current uncertainties and develop its market position. We therefore continue to look forward to the future with confidence.

Dividends
The Board's objective is to maintain a progressive dividend policy and 2x cover over the cycle. While the results for the year ended March 2020 and the Group's capital and cash reserves support an increase in the final dividend, the Board is mindful of the deterioration of markets triggered by the global COVID-19 crisis and the likely impact this will have on future profits. There is also a significant degree of uncertainty about the medium-term outlook. During such adverse times, typically companies with strong reserves are able to emerge with improved market share. Accordingly, and seeking to balance the interests of all our stakeholders, the Board proposes a maintained final dividend of 6.0 pence per share (2019: 6.0 pence per share). Taking into account the interim dividend of 3.0 pence per share, this results in a total dividend for the year of 9.0 pence per share (2019: 8.75 pence per share), an increase of 2.9%. The proposed total dividend is 3.1 times covered by basic reported earnings and 3.5 times covered by basic underlying earnings. The recommended final dividend is subject to shareholders' approval, which will be sought at the Company's Annual General Meeting (AGM) on 9 July 2020.

Risk management and principal risks
The Chief Risk Officer, under the supervision of the Risk Committee, has the principal responsibility for the design and implementation of the Group's risk management framework. The Risk function oversees and challenges risk activities and ensures that risks are being appropriately identified and managed within our risk appetite.

Risk culture
The Board is responsible for setting a strong risk culture with a clear and consistent tone from the top and, through our Senior Management team, encouraging appropriate behaviours and collaboration on managing risks across the business. Risk management is accepted as being part of everyone's day-to-day responsibilities and is linked to performance.

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

We follow industry practice for risk management with a 'three lines of defence' model to manage risk and provide assurance about the effectiveness of the control environment to Executive Management and the Board.

The first line of defence is the business that owns and manages the risk; the second consists of the control functions that monitor and facilitate the implementation of effective risk management practices and regulatory compliance; and the third line is independent assurance provided by internal audit performed by Grant Thornton.

Risk assessment process
The Board and Senior Management are actively involved in a continuous risk assessment process as part of our risk management framework, supported by the ICAAP, which assesses the risks facing the Group to maintain sufficient capital facing these risks. Stress tests include consideration of severe but plausible events or changes in economic circumstances that could impact the viability of the firm and defining proportionate management responses to avoid or reduce the impact or occurrence of the underlying risks.

Our risk assessment process considers both the impact and the likelihood of risk events which could materialise, affecting the delivery of strategic goals and annual business plans. A top-down and bottom-up approach ensures that our assessment of key risks is challenged and reviewed on a regular basis. The Board Committees and the Executive Control Committees receive regular risk reports and management information.

Responding to COVID-19
The COVID-19 crisis has tested our operational resilience through weeks of disruption to normal activities. This experience has helped us to improve collaboration effectively and prioritise business-critical functions as our staff have adapted to new ways of working.

Whilst the impact of the COVID-19 pandemic on global investment markets means that there is much more uncertainty about the outlook, the Group has demonstrated that it is operationally and financially resilient and that it is well placed to emerge strongly from the current crisis.

Emerging risks
While the threat of a trade war between the US and China appears to have receded, global financial markets have reacted sharply to the spread of COVID-19. While we cannot influence the economic impact of the COVID-19 crisis nor manage the market's reaction to it, our work on stress testing has shown the Group's financial resilience to withstand severe geopolitical and economic scenarios.

The Group's exposure to market risk is minimal as it does not hold any proprietary positions.

The Group has decided to outsource major parts of its IT function. Careful consideration has been given to ensure that risks are appropriately mitigated with no impact on clients and service levels.

As a UK-based entity, we are closely monitoring the Brexit negotiations and making preparations to ensure the Group is well positioned to mitigate any adverse risks arising from a worst case scenario.

<table>
<tr><th colspan="3">Principal risks</th></tr>
<tr><td colspan="3">Business Model and Strategy
The risk that the business model and strategy do not respond in an optimal manner to changing market conditions such that sustainable growth, market share or profitability are adversely impacted.</td></tr>
<tr><td>Oversight</td><td>Key mitigants and controls</td><td>Example of Metrics</td></tr>
<tr><td>Board</td><td>• Stress testing and reverse stress testing are undertaken as part of the ICAAP to assess their impacts on the business model and strategy

• The Board considers emerging and top risks to the business as part of the Group’s strategic plans</td><td>• Long-term operating margin
• Revenues and budgets</td></tr>
<tr><td>Trend</td><td>• No material changes have been made to the business model and strategy</td><td></td></tr>
<tr><td colspan="3">Financial strength
The risk that the Group fails to maintain sufficient financial strength in order to support business objectives, meet regulatory capital requirements and provide shareholders with an acceptable return.</td></tr>
<tr><td>Oversight</td><td>Key mitigants and controls</td><td>Example of Metrics</td></tr>
<tr><td>Board</td><td>• To achieve our financial goals, a series of risk appetite limits have been set which are monitored by the Board on a regular basis</td><td>• Operating margin
• Regulatory capital
• Target dividend cover</td></tr>
<tr><td>Trend</td><td>• Increased profits have led to a strengthening of the Group’s financial resources over the past year. However the impact of the COVID-19 pandemic on global investment markets means that there is much more uncertainty about the outlook so the risk to the Group’s financial position has increased</td><td></td></tr>
<tr><td colspan="3">Liquidity
The risk that the Group, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure such resources at excessive cost.</td></tr>
<tr><td>Oversight</td><td>Key mitigants and controls</td><td>Example of Metrics</td></tr>
<tr><td>Treasury Committee</td><td>• The Group ensures that all legal entities have sufficient funds to meet their liabilities as they fall due
• Liquidity risk framework and stress testing
• Contingency funding plans</td><td>• Amount of cash on call
• Daily cash flow monitoring</td></tr>
<tr><td>Trend</td><td>• The Group’s available liquid resources have continued to improve and were £93.5 million at 31 March 2020 with no borrowings. However the impact of the COVID-19 pandemic on global investment markets means that there is much more uncertainty about the outlook and this may result in increased pressure on liquidity</td><td></td></tr>
</table>

Market The risk of losses arising as a result of exposure to market movements, including foreign exchange and interest rates.		
Oversight	Key mitigants and controls	Example of Metrics
Treasury Committee	• Charles Stanley does not hold any proprietary positions other than a limited investment portfolio in its own name for the purpose of operating a model portfolio • The majority of the Group's cash is kept in GBP across a number of banks • Limited foreign currency is held only to facilitate settlement and dealing activity on behalf of clients	• Foreign current exposures • Interest rate modelling
Trend	• Group's market exposure risk is limited and remains constant	
Credit and counterparty The risk that clients or counterparties fail to fulfil their contractual obligations.		
Oversight	Key mitigants and controls	Example of Metrics
Treasury Committee/ Market Exposure Committee (MEC)	• Charles Stanley does not offer any formal lines of credit to clients, therefore its exposure to credit risk resides in the failure of its clients and counterparties to fulfil their contractual obligations • Assets will only be placed and maintained with authorised institutions • Trading counterparties reviewed annually and given defined exposure limits which are monitored by the MEC • Breaches of any counterparty trading limits without approval must be escalated immediately to the MEC	• Banking counterparties diversification • Trading counterparties exposure limits • Aggregated defined exposure limit • Daily trading volume
Trend	• Strong internal controls mitigate the exposure to failing counterparties. Risk remains constant	
Pension Obligation The risk that the cost of the Group's defined benefit pension scheme ("the scheme") increases, or its valuation affects dividends, reserves and capital. This would materialise when the pension obligations exceed the assets set aside to cover them.		
Oversight	Key mitigants and controls	Example of Metrics
Board	• The scheme is closed to new members and ceased accruing for existing members in April 2016. It is reviewed regularly for viability and to remain within an agreed deficit level • The Group works closely with the trustees of the scheme to reduce the deficit and, where possible, match investments with future liabilities	• Defined benefit scheme deficit • Funding level
Trend	• Over recent years the deficit has been gradually reducing as the agreed upon deficit reduction programme and flight path to attain solvency have been followed. However, the actuarial assessment of the scheme's liabilities is highly sensitive to changes in the underlying assumptions and the liability could increase again because of changes to these or poor investment performance	

<table>
<tr><td colspan="3">Operation Resilience and IT infrastructure
The risk that a material failure of business processes or IT infrastructure may result in unanticipated financial loss, harm to clients or reputational damage.</td></tr>
<tr><td>Oversight</td><td>Key mitigants and controls</td><td>Example of Metrics</td></tr>
<tr><td>Board Risk Committee/ Enterprise Risk Committee</td><td>• Operational resilience framework in place to maintain the continuity of important business services
• Proactive identification, mitigation and oversight of non-financial risks
• Constructed framework of internal controls to minimise the risk of unanticipated financial loss or potential harm
• Insurance cover is in place and reviewed on an annual basis to ensure that there is an appropriate amount of cover to manage the impact of operational losses</td><td>• Dealing losses
• Operational losses
• BCP tests
• Penetration testing
• ICT service availability
• 50+ operational risk indicators across all operational risks</td></tr>
<tr><td>Trend</td><td>• As a consequence of the IT outsourcing project and the current crisis, the potential risk of operational disruption remains heightened</td><td></td></tr>
<tr><td colspan="3">IT Security and Cyber Security
The risk that Charles Stanley’s system infrastructure is breached by external counterparties with or without malicious intention. Possible breaches could involve data theft, ransomware or a shutdown of systems.</td></tr>
<tr><td>Oversight</td><td>Key mitigants and controls</td><td>Example of Metrics</td></tr>
<tr><td>Board Risk Committee/ Enterprise Risk Committee</td><td>• A set framework to prevent and detect unauthorised access attempts to the Group’s business systems
• Develop systems which are resilient to current and emerging threats and maintains a rolling programme of activity which is informed by the day-to-day experience, threat intelligence and any emerging vulnerabilities identified</td><td>• Phishing tests
• Anti-virus and system patching
• 50+ operational risk indicators across all operational risks</td></tr>
<tr><td>Trend</td><td>• Rise of external threats and attempted attacks across the industry</td><td></td></tr>
<tr><td colspan="3">People and Conduct
The risk that clients or the wider market, as opposed to the Group, suffer detriment as a result of the Group’s services, products or activities.</td></tr>
<tr><td>Oversight</td><td>Key mitigants and controls</td><td>Example of Metrics</td></tr>
<tr><td>Board Risk Committee/ Conduct & Culture Committee</td><td>• Conduct & Culture Committee was instituted to provide enhanced oversight
• All clients are risk-profiled to ensure that we clearly define, agree and manage our clients’ portfolios in accordance with these risk profiles, investment objectives and capacity for loss
• Careful monitoring of investment decision-making against the risk profile ensures that we achieve appropriate and suitable outcomes for our clients</td><td>• 18 conduct outcomes and 43 underlying risk measures</td></tr>
<tr><td>Trend</td><td>• Risk remains constant as we continue to embed the Group’s core values and the new Senior Manager & Certification Regime</td><td></td></tr>
</table>

Legal and Regulatory The risk that clients or the wider market, as opposed to the Group, suffer detriment as a result of the Group's services, products or activities.		
Oversight	Key mitigants and controls	Example of Metrics
Board Risk Committee/ Enterprise Risk Committee	• The risk is monitored and managed by emphasis on compliance with all aspects of relevant regulation, including those of the FCA • Charles Stanley monitors changes in the regulatory and legal agenda and has formal projects for major changes to ensure their successful implementation • The Group runs programmes to ensure all policies, operating procedures and processes are compliant with any new significant regulatory change requirements	• Timeliness of regulatory returns • Breach and complaints logs and monitoring • Compensation payouts • Litigation cases
Trend	• Risk increase due to the ongoing regulatory change environment and the uncertainties linked to COVID-19 and Brexit increases the risk	

Assessment of the Group's prospects and Viability statement

The Board aims to maintain and build a sustainable wealth management business over the long term. The Board monitors a three-year strategic plan that provides a robust planning tool against which strategic decisions are made. This plan was discussed at the Board's strategy meeting in February 2020, subsequently reviewed as a result of the outbreak of COVID-19 pandemic and approved on 27 May 2020.

The full impact of the COVID-19 pandemic on the economy in general and the Group in particular is not yet fully known and is unlikely to be for a while. The impact will depend on many factors including the length of the enforced closure of certain business and social facilities, the social distancing measures and the success and continuity of the government's and Bank of England's support measures.

In view of these uncertainties and in addition to the Group's core strategy and budget documents which cover the three year period to 31 March 2023, the Board has reviewed detailed papers prepared by Management that consider the Group's expected future profitability, dividend policy, capital position and liquidity, both as they are expected to be and under even more severely stressed conditions. The stressed scenarios reviewed include both a prolonged three year downturn in capital markets and, separately, a resurgence of the COVID-19 virus. Unrelated idiosyncratic liquidity stress tests have been overlaid as well. The assumptions upon which the scenarios were modelled are based on management's own judgements, taking account of external research, including a more pessimistic view than taken by the "Rates Down" guidance provided by the Bank of England. The Board has also reviewed the management actions that could be taken in these scenarios.

The Board has taken account of reports from Management concerning the operational resilience of the business which have been updated to reflect the switch to remote home working in compliance with Government advice. The Board is satisfied that the business can successfully operate in these conditions as it has demonstrated since mandatory social distancing measures came into force in March 2020. The majority of our staff are now working from home and our material outsourced suppliers continue to provide their services and we believe can continue to do so for an extended period.

Finally, the Board has reviewed a reverse stress test analysis to consider the length and depth that a recession would have to reach to cause the Group to cease to be viable.

In assessing the future viability of the overall business and the analysis described, the Directors have also considered:

- the quantity and quality of capital resources available to support the delivery of the Group's objectives including consideration of the effects of a changing regulatory landscape together with the effect of the Group's capital contingency plan to restore the capital position in scenarios of capital headwinds;

- the changes within the business executed in the last three years, including the significant business restructuring, and the planned changes over the coming 12 months; and

- other top and emerging risks for the business. These include:

- a review of the cyber security threat;

- the annual information risk assessment together with the technology roadmap for improvements in the technology environment through the MaxIT project.

Based on the work performed and actions already taken by management to respond to the COVID-19 crisis, the Directors believe that the Group has adequate resources to continue in operational existence for the period of 12 months from the date of signing these accounts and therefore operate as a going concern.

Furthermore, the Directors have a reasonable expectation that the Group will be able to continue in operation as a viable entity and meet its liabilities as they fall due over a period of at least three years.

Consolidated income statement
Year ended 31 March 2020

	Notes	2020 £000	2019 £000
Revenue	4	173,014	155,158
Administrative expenses	4	(151,413)	(145,767)
Restructuring costs	5	(3,472)	–
Impairment of intangible assets	10	(349)	–
Other income	4	115	101
Operating profit		17,895	9,492
(Loss)/gain on disposal of property, plant and equipment		(18)	293
Gain on sale of business		–	119
Reversal of impairment of corporate loans		–	500
Finance income		429	702
Finance costs		(984)	(76)
Net finance and other non-operating income		(573)	1,538
Profit before tax		17,322	11,030
Tax expense	9	(3,072)	(2,026)
Profit for the period attributable to owners of the Parent Company		14,250	9,004

Earnings per share			
Basic	7	28.03p	17.74p
Diluted	7	27.51p	17.41p

Consolidated statement of comprehensive income
Year ended 31 March 2020

	2020 £000	2019 £000
Profit for the period	14,250	9,004
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Remeasurement of the defined benefit scheme obligation	1,379	(515)
Related tax	(121)	39
Fair value through other comprehensive income financial assets – unrealised gains and losses	1,896	898
Related tax	(382)	(153)
	2,772	269
Items that are or may be reclassified to profit or loss		
Gains on revaluation of properties transferred to profit or loss	–	(219)
Related tax	–	24
	–	(195)
Other comprehensive income for the period, net of tax	2,772	74
Total comprehensive income for the period attributable to owners of the Parent Company	17,022	9,078

Consolidated statement of financial position
As at 31 March 2020

	Notes	2020	2019
Assets		**£000**	**£000**
Intangible assets	10	20,013	18,339
Property, plant and equipment		18,175	8,706
Net deferred tax asset		1,182	2,134
Financial assets at fair value through other comprehensive income		4,482	2,586
Financial assets at amortised cost		507	1,010
Non-current assets		44,359	32,775
Trade and other receivables		203,838	191,301
Financial assets at fair value through profit or loss		1,492	2,234
Financial assets at amortised cost		4,997	9,994
Cash and cash equivalents		88,477	71,211
Current tax assets		71	–
Current assets		298,875	274,740
Total assets		343,234	307,515
Equity			
Share capital		12,784	12,692
Share premium		5,170	4,625
Own shares		(334)	(201)
Revaluation reserve		3,503	1,989
Merger relief reserve		15,167	15,167
Retained earnings		80,194	72,134
Equity attributable to owners of the Parent Company		116,484	106,406
Non-controlling interests		24	24
Total equity		116,508	106,430
Liabilities			
Employee benefits		5,080	6,841
Non-current trade and other payables		404	–
Non-current lease liabilities		9,718	–
Non-current provisions		1,983	1,961
Non-current liabilities		17,185	8,802
Trade and other payables		205,465	189,496
Current tax liabilities		–	946
Current lease liabilities		2,825	–
Current provisions		1,251	1,841
Current liabilities		209,541	192,283
Total liabilities		226,726	201,085
Total equity and liabilities		343,234	307,515

The financial statements were approved and authorised for issue by the Board of Charles Stanley Group PLC (company number 48796) on 27 May 2020.

Consolidated statement of changes in equity
Year ended 31 March 2020

	Share capital £000	Share premium £000	Own shares £000	Re-valuation reserve £000	Merger relief reserv £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total equity £000
1 April 2019	12,692	4,625	(201)	1,989	15,167	72,134	106,406	24	106,430
Adjustment on initial application of IFRS 16	–	–	–	–	–	(1,043)	(1,043)	–	(1,043)
Profit for the year	–	–	–	–	–	14,250	14,250	–	14,250
Other comprehensive income:									
Financial assets at fair value through other comprehensive income:									
– unrealised gains and losses	–	–	–	1,896	–	–	1,896	–	1,896
– related deferred tax	–	–	–	(382)	–	–	(382)	–	(382)
Remeasurement of defined benefit scheme liability:									
– actuarial gain in the year	–	–	–	–	–	1,379	1,379	–	1,379
– deferred tax movement on scheme liability	–	–	–	–	–	(121)	(121)	–	(121)
Total other comprehensive income for the year	–	–	–	1,514	–	1,258	2,772	–	2,772
Total comprehensive income for the year	–	–	–	1,514	–	15,508	17,022	–	17,022
Dividends paid	–	–	–	–	–	(4,574)	(4,574)	–	(4,574)
Unclaimed dividends	–	–	–	–	–	12	12	–	12
Shares transfer to employees	–	–	80	–	–	(80)	–	–	–
Own shares acquired	–	–	(213)	–	–	–	(213)	–	(213)
Share-based payments:									
– value of employee services	–	–	–	–	–	(1,783)	(1,783)	–	(1,783)
– issue of shares	92	545	–	–	–	–	637	–	637
– related deferred tax	–	–	–	–	–	20	20	–	20
31 March 2020	12,784	5,170	(334)	3,503	15,167	80,194	116,484	24	116,508

Consolidated statement of changes in equity
Year ended 31 March 2019

	Share capital £000	Share premium £000	Own shares £000	Re-valuation reserve £000	Merger relief reserve £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total equity £000
1 April 2018	12,686	4,564	(95)	1,598	15,167	63,842	97,762	24	97,786
Adjustment on initial application of IFRS 15	–	–	–	–	–	579	579	–	579
Adjustment on initial application of IFRS 9	–	–	–	(159)	–	152	(7)	–	(7)
Profit for the year	–	–	–	–	–	9,004	9,004	–	9,004
Other comprehensive income:									
Financial assets at of fair value through other comprehensive income:									
– unrealised gains and losses	–	–	–	898	–	–	898	–	898
– related deferred tax	–	–	–	(153)	–	–	(153)	–	(153)
Realisation of unrealised gains on freehold properties:	–	–	–	(219)	–	–	(219)	–	(219)
– related tax	–	–	–	24	–	–	24	–	24
Remeasurement of defined benefit scheme liability:									
– actuarial gain in the year	–	–	–	–	–	(515)	(515)	–	(515)
– tax movement on scheme liability	–	–	–	–	–	39	39	–	39
Total other comprehensive income for the year	–	–	–	550	–	(476)	74	–	74
Total comprehensive income for the year	–	–	–	550	–	8,528	9,078	–	9,078
Dividends paid	–	–	–	–	–	(4,187)	(4,187)	–	(4,187)
Unclaimed dividends	–	–	–	–	–	109	109	–	109
Shares transfer to employees	–	–	17	–	–	(17)	–	–	–
Own shares acquired	–	–	(123)	–	–	–	(123)	–	(123)
Share-based payments:									
– value of employee services	–	–	–	–	–	3,128	3,128	–	3,128
– issue of shares	6	61	–	–	–	–	67	–	67
31 March 2019	12,692	4,625	(201)	1,989	15,167	72,134	106,406	24	106,430

Consolidated statement of cash flows
Year ended 31 March 2020

	Notes	2020 £000	2019 £000
Cash flows from operating activities			
Cash generated from operating activities	13	25,849	21,444
Interest received		539	608
Interest paid		(60)	(76)
Tax paid		(3,801)	(2,525)
Net cash generated from operating activities		22,527	19,451
Cash flows from investing activities			
Acquisition of subsidiary		(1,785)	–
Acquisition of intangible assets		(676)	(376)
Purchase of property, plant and equipment		(1,570)	(882)
Purchase of financial assets		(40,904)	(21,888)
Proceeds from disposal of property, plant and equipment		50	400
Proceeds from sale of financial assets		47,081	12,890
Net cash inflow from disposal of business		–	119
Dividends received		115	101
Net cash used in from investing activities		2,311	(9,636)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		637	67
Purchase of own shares		(213)	(123)
Dividends paid		(4,574)	(4,187)
Payment of lease liabilities		(3,422)	–
Net cash used in financing activities		(7,572)	(4,243)
Net increase in cash and cash equivalents		17,266	5,572
Cash and cash equivalents at start of year		71,211	65,639
Cash and cash equivalents at end of year		88,477	71,211

1. General information

As required by section 435 of the Companies Act 2006, the Board confirms that the financial information contained in this preliminary announcement does not constitute the Group's financial statements for the year ended 31 March 2020.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 March 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

While the financial information has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) this preliminary announcement does not contain sufficient information to comply with IFRS.

The accounting policies used are consistent with those set out in note 2 to the 2019 Annual Report and Accounts which have been delivered to the Registrar of Companies.

The critical accounting judgements and key sources of estimation uncertainty are set out below.

The 2020 Annual Report and Accounts will be posted to shareholders during June 2020. Copies will be available from the registered office of the Company at 55 Bishopsgate, London, EC2N 3AS. It will also be available on the Company's website www.charles-stanley.co.uk.

2. Application of new and revised IFRSs and changes in accounting policy

The accounting policies adopted in the preparation of the Group's Annual report and accounts are consistent with those followed in the preparation of the Group's Annual report and accounts for the year ended 31 March 2019, except for the mandatory standards and amendments that had an effective date after 1 April 2019. Aside from the adoption of IFRS 16 Leases (see 2.1), which is described below, none of the new mandatory standards nor amendments had a material impact on the reported financial position or performance of the Group.

A number of new standards and amendments to standards and interpretations are effective for periods beginning on or after 1 April 2020. The following new standards are not applicable to these financial statements but are expected to have an impact when they become effective, with the exception of IFRS 16 leases, the impact of which is shown below. The Group plans to apply these standards and amendments in the reporting period in which they become effective.

2. 1 Changes in accounting policies - IFRS 16 Lease

In the current period, the Group has applied IFRS 16 Leases for the first time. The date of initial application of IFRS 16 for the Group was 1 April 2019. IFRS 16 replaced IAS 17 Leases and introduced a single, on-balance sheet accounting model for lessees and eliminates the classification of leases as either operating or finance leases.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the leases substantially transferred all the risks and rewards of ownership. For leases previously classified as operating leases by IAS 17, the Group has recognised right-of-use assets and associated lease liabilities in the statement of financial position. The nature of expenses related to those leases has also changed. The Group recognises a straight-line depreciation expense and a front-loaded interest expense on lease liabilities. Previously, the Group recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there were timing differences between actual lease payments and the expense recognised.

The Group is not party to any material leases where it acts as a lessor nor any material leases which were classified as finance leases under IAS 17.

2.1.1 Accounting policies under IFRS 16 Leases

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets e.g. ICT equipment. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments;
- variable lease payments that depend on an index or rate, initially measured using the index or
- rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of the exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate.
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Group does not have any leases that include purchase options or transfer ownership of the underlying asset.

The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned – for the Group this is property, plant and equipment. Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in Administrative expenses in the consolidated income statement.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented in Administrative expenses in the consolidated income statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

2.1.2 Approach to transition

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right-of-use assets arising from property leases using the approach set out in IFRS 16.C8(b)(i). Under IFRS 16.C8(b)(i) right-of-use assets are calculated as if the Standard applied at lease commencement, but discounted using the borrowing rate at the date of initial application.

The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 April 2019 was 6.66%. The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and International Financial Reporting Interpretations Committee ('IFRIC') 4 will continue to be applied to those leases entered into or modified before 1 April 2019.

As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics; and
- hindsight has been used in determining the lease term.

2.1.3 Financial impact

The application of IRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and liabilities. Operating lease incentives previously recognized as liabilities have been derecognised and factored into the measurement of the right-to-use assets and lease liabilities.

The table below sets out the adjustments to the consolidated statement of financial position recognized at the date of initial application of IFRS 16:

	As reported at 31 March 2019 £000	Impact of IFRS 16 £000	As reported at 1 April 2019 £000
Non-current assets			
Property, plant and equipment	8,706	12,007	20,713
Net deferred tax assets	2,134	213	2,347
Equity			
Retained earnings	72,134	(1,043)	71,091
Liabilities			
Trade and other payables	189,496	(987)	188,509

The table below presents operating lease commitments disclosed at 31 March 2019 and lease liabilities recognised at 1 April 2019:

	£000
Operating lease commitments disclosed under IAS 17 at 31 March 2019	17,681
Lease liabilities recognized under IFRS 16 at 1 April 2019	14,251

The difference between the value of operating lease commitments disclosed under IAS 17 at 31 March 2019 and the lease liabilities recognised under IFRS 16 at 1 April 2019 is primarily due to the discounting effect of applying the Group's borrowing rate of 6.66%.

3. Use of judgements and estimates

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

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

3.1 Major sources of estimation and uncertainty in applying the Group's accounting policies

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

3.1.1 Goodwill and intangible assets

For the purposes of impairment testing, the Parent Company and the Group assess goodwill and client relationships based on the recoverable amount of individual units making up the relevant intangible asset, in accordance with the accounting policy set out in note 14 of the 2020 Annual report and accounts.

An impairment of £0.3 million was recognised in the period against the carrying value of goodwill for the Isle of Wight cash generating unit. No further impairments occurred for other cash generating units for goodwill or intangible assets in the period.

3.1.2 Retirement benefit obligations

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

The valuation performed as at 31 March 2020 resulted in a decrease in the actuarial deficit of £1.7 million which has been reflected in these financial statements.

One of the key estimates applied is the long term gap between the rate of CPI and RPI inflation indices. Historically the gap has been assumed to be 0.9%, however because of proposed changes to the calculation of RPI published by the UK Government in September 2019 to take effect sometime between 2025 and 2030, the Directors believe a more appropriate estimate of the gap to use is now 0.5%. This reflects the Directors belief that alignment of RPI to CPI will occur by 2030 and that the gilt market is fully pricing in such alignment.

3.1.3 Unlisted financial assets designated as fair value through other comprehensive income

Unlisted financial assets include an investment in Euroclear Holding SA (a company incorporated in Belgium). The Directors have estimated the fair value of this investment based on the price earnings ratio of comparable quoted companies (22.8x), discounted by 33% to reflect the illiquidity of Euroclear shares.

Increasing or decreasing the price earnings multiple by 10% would result in a £0.5 million increase or decrease in the fair value of the Group's shareholding.

3. Use of judgements and estimates (continued)

3.1.4 Share-based payments

The Group participates in a number of equity-settled share-based payment arrangements with its employees, as detailed in note 11 of the 2020 Annual report and accounts. When such awards are made, the fair value at grant date serves as the basis for calculating the staff costs.

The vesting conditions attached to the awards are subject to specific non-market performance conditions. The expense in respect of each arrangement is recognised over the vesting period, based on an estimate of the number of awards expected to vest. The estimate of awards expected to vest is revised at each reporting date and the cumulative charge is updated.

3.2 Key accounting judgements in applying the Group's accounting policies

The Directors' do not consider there are any key accounting judgements impacting the financial statements.

4. Operating segments

The Group has three operating divisions, representing the underlying performance, which are its reportable segments. These segments are the basis on which the Group reports its performance to the Chief Executive Officer, who is the Group's chief operating decision-maker.

Year ended 31 March 2020	Investment Management Services £000	Charles Stanley Direct £000	Financial Planning £000	Support Functions[3] £000	Total £000
Investment management fees	92,853	-	2,006	-	94,859
Administration fees	23,922	7,763	6,683	-	38,368
Total fees	116,775	7,763	8,689	-	133,227
Commission	38,903	1,687	7	-	39,787
Total revenue	154,868	9,450	8,696	-	173,014
Administrative expenses[1]	(82,463)	(4,056)	(10,599)	(58,116)	(155,234)
Other income	115	-	-	-	115
Operating contribution	72,520	5,394	(1,903)	(58,116)	17,895
Allocated costs	(51,053)	(3,861)	(3,202)	58,116	-
Operating profit/(loss)[2]	21,467	1,533	(5,105)	-	17,895
Segment assets	337,183	5,556	201	294	343,234
Segment liabilities	225,390	-	1,336	-	226,726

Notes

1. Administrative expenses include £3.5 million of restructuring costs, £3.0 million of Investment Management Services non-cash share credit, £1.2 million of amortisation of client relationships and £0.3 million of impairments to intangible assets.
2. The operating profit/(loss) as per the table above is different to that presented in the divisional analysis within the Review of the year as the table above includes adjusting items which are excluded from the underlying performance analysis.
3. Support function costs are allocated to the respective divisions based on proportions agreed by the Directors, which reflect utilisation.

4. Operating segments (continued)

Year ended 31 March 2019	Investment Management Services[1] £000	Charles Stanley Direct £000	Financial Planning £000	Support Functions[4] £000	Total £000
Investment management fees	85,561	-	1,529	-	87,090
Administration fees	19,246	6,290	5,774	-	31,310
Total fees	104,807	6,290	7,303	-	118,400
Commission	35,341	1,407	10	-	36,758
Total revenue	140,148	7,697	7,313	-	155,158
Administrative expenses[2]	(81,893)	(3,319)	(8,305)	(52,250)	(145,767)
Other income	97	2	2	-	101
Operating contribution	58,352	4,380	(990)	(52,250)	9,492
Allocated costs	(46,323)	(3,382)	(2,545)	52,250	-
Operating profit/(loss)[3]	12,029	998	(3,535)	-	9,492
Segment assets	300,027	5,591	1,603	294	307,515
Segment liabilities	200,091	-	994	–	201,085

Notes
1. The 2019 figures have been restated to reflect the amalgamation of the Asset Management division into the Investment Management Services division with effect from 1 April 2019.
2. Administrative expenses include £1.7 million of Investment Management Services non-cash share options charge and £1.1 million of amortisation of client relationships.
3. The operating profit/(loss) as per the table above is different to that presented in the divisional analysis within the Review of the year as the table above includes adjusting items which are excluded from the underlying performance analysis.
4. Support function costs are allocated to the respective divisions based on proportions agreed by the Directors, which reflect utilisation.

5. Restructuring costs

The Group is undertaking a transformation programme to improve sales and productivity. As part of this programme the following one-off exceptional costs are included in the consolidated income statement:

	2020 £000	2019 £000
Redundancy costs	1,613	-
External consultants – contract staff	991	-
IT and communications	667	-
Legal and professional fees	201	-
	3,472	-

6. Acquisition of subsidiary

On 1 August 2019, the group obtained control of Myddleton Croft Limited by acquiring 100% of its issued share capital. Myddleton Croft Limited is a Leeds-based investment management firm. The recognised amounts of identifiable assets and liabilities acquired were as follows:

	£000
Property, plant and equipment	41
Trade and other receivables	97
Cash and cash equivalents	194
Trade and other payables	(139)
Total identifiable net assets acquired	193
Customer relationships	2,080
Deferred tax liability on customer relationships	(295)
Total consideration	1,978
Satisfied by:	
Cash	1,131
Contingent consideration	847
	1,978

Initial consideration of £0.9 million was paid on 1 August 2019 and a further £0.2 million paid in October 2019 on agreement of the net asset value of Myddleton Croft Limited at completion. The contingent consideration is payable three months after the first and second anniversaries of the date of completion.

The contingent consideration was reviewed at 31 March 2020 and was subsequently revised to a balance of £0.7 million, with £0.3 million payable on the first anniversary and £0.4 million payable on the second anniversary.

7. Earnings per share

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

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

	2020 pence per share	2019 pence per share
Earnings per share		
Basic earnings per share	28.03	17.74
Diluted earnings per share	27.51	17.41

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

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

	2020 £000	2019 £000
Earnings		
Earnings used in the calculation of basic earnings per share and diluted earnings per share	14,252	9,004

	2020 £000	2019 £000
Number of shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	50,837	50,745
Effect of potentially dilutive share options	971	985
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	51,808	51,730

All amounts related to continuing operations. There were no discontinued operations in the current year or in the prior year.

8. Employee benefits

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

Amounts included in the condensed consolidated statement of financial position

	2020 £000	2019 £000
Fair value of scheme assets	22,162	21,039
Present value of defined benefit obligation	(27,242)	(27,880)
Deficit in scheme	(5,080)	(6,841)
Deficit in scheme and Liability in the condensed consolidated statement of financial position	(5,080)	(6,841)

Significant actuarial assumptions

	2020 %	2019 %
Inflation – Consumer Price Index (CPI)	2.20	2.40
Rate of discount	2.40	2.30
Allowance for pension payment increases of CPI (or 5% p.a. if less than CPI, minimum 3% p.a.)	3.30	3.00
Allowance for revaluation if deferred pensions of CPI (or 2.5% p.a. if less than CPI)	2.20	2.40

The mortality assumptions adopted at 31 March 2020 are 100% (2019: 100%) of the standard tables S2PxA, Year of Birth, no age rating for males and females, projected using CMI_2019 converging to 1.00% p.a. These imply the following life expectancies at age 65:

	2020	2019
Male retiring in current year	21.6	21.8
Female retiring in current year	23.5	23.7
Male retiring in twenty years	22.6	22.9
Female retiring in twenty years	24.7	25.0

9. Income taxes

Tax recognised in the income statement

	2020 £000	2019 £000
Current taxation		
Current year expense	2,790	2,592
Adjustment in respect of prior years	(45)	(335)
	2,745	2,257
Deferred taxation		
Expense/ (credit) for the year	340	(193)
Adjustment in respect of prior years	(13)	(38)
	327	(231)
Total tax expense	3,072	2,026

In addition to amounts charged to the consolidated income statement, a deferred tax charge of £0.4 million (2019: £0.2 million) relating to the revaluation of financial assets has been recognised directly to equity. A current tax charge of £nil (2019: £0.02 million) and deferred tax charge of £0.1 million (2019: deferred tax credit of £0.07 million) in respect of the defined benefit scheme have also been charged directly to equity.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the 11 March 2020 Budget, it was announced that the UK corporation tax rate will remain at the current level of 19% and not reduce to 17% from 1 April 2020. Deferred tax is calculated using the rate expected to apply when the relevant timing differences are forecast to unwind.

10. Intangible assets

Cost	Goodwill £000	Customer relationships £000	Internally generated software £000	Total £000
At 1 April 2018	20,213	23,775	7,471	51,459
Adjustment on application of IFRS 15	–	786	–	786
Additions	–	376	–	376
At 31 March 2019	20,213	24,937	7,471	52,621
Additions	–	3,452	90	3,542
At 31 March 2020	20,213	28,389	7,561	56,163
Amortisation and impairment				
At 1 April 2018	6,161	19,772	6,233	32,166
Adjustment and application of IFRS 15	–	89	–	89
Charge for the year	–	1,097	930	2,027
At 31 March 2019	6,161	20,958	7,163	34,282
Impairment charge during the year	349	–	–	349
Charge for the year	–	1,195	324	1,519
At 31 March 2020	6,510	22,153	7,487	36,150
Net book value				
At 31 March 2020	13,703	6,236	74	20,013
At 31 March 2019	14,052	3,979	308	18,339

None of the intangible assets have been pledged as security.

Goodwill is allocated to the Group's operating divisions as follows:

Goodwill	2020 £000	2019 £000
Investment Management Services	8,456	8,805
Charles Stanley Direct	5,247	5,247
	13,703	14,052

10.1 Goodwill

The recoverable amount of goodwill allocated to a CGU[1] is determined initially by calculating the CGUs fair value less costs to sell. If this is lower than the carrying amount or is not determinable, a value in use calculation is also prepared.

Fair value less costs to sell is calculated largely based on a percentage of FuMA (between 1.30% and 3.09%). The rates used in the fair value less costs to sell calculations are those implied by recent transactions in the market or, where appropriate, based on publicly available information for similar quoted businesses. The inputs into fair value less costs to sell calculations are considered to be level 3 in the fair value hierarchy. The valuation techniques for calculating the recoverable amount are consistent with those used in prior years.

No value in use calculations have been prepared for other CGUs on the basis that the fair value less cost to sell was greater than the carrying amount.

10. Intangible assets (continued)

10.1 Goodwill (continued)

No other assets or liabilities related to the Group are allocated to CGUs in the assessment of the fair value of each CGU. Accordingly, the amalgamation of the Asset Management division to the Investments Management Services division had no impact on the carrying value of CGUs.

10.1.1 Investment Management Services

The goodwill attributed to this division, is represented by the five CGUs, comprising acquired investment management teams in different locations across the UK. The largest CGUs are Towrie and Robson Cotterell, representing 51% and 27% respectively of the carrying value of the goodwill held by the division.

The recoverable amount was assessed using fair value less costs to sell for the year ended 31 March 2020, based on a percentage of FuMA (1.30%), being the lower end of managements estimations. The Robson Cotterell CGU had the lowest headroom, of £0.2 million, between the carrying value and the recoverable amount. FuMA associated with this CGU would need to fall by 19% under the current method before an impairment would be recognised.

An impairment charge of £0.3 million has been made for goodwill relating to the Isle of Wight CGU, reducing the carrying value of this CGU to nil. The reason for the impairment has not been the loss of clients, but the closure of the branch, combined with the subsequent retirement and departure of the remaining investment managers. Except for the above, the recoverable amount of all other CGUs was determined to be higher than the carrying amounts and therefore the goodwill carrying value is adequately supported.

10.1.2 Charles Stanley Direct

The recoverable amount of goodwill relating to Charles Stanley Direct was assessed using fair value less costs to sell for the year ended 31 March 2020. Fair value less costs to sell was determined based on a percentage of FuMA in recent market transactions. The range observed was £2.5 million to £10.3 million paid per £1.0 billion of assets. The recoverable amount was determined to be higher than the carrying amount of the CGU and therefore the goodwill carrying value is adequately supported.

10.2 Customer relationships

Customer relationships relate to payments made to investment managers and third parties for the introduction of customer relationships. Customer relationships also arise on business combinations. The fair value was determined based on a percentage of FuMA of investment managers who have received payments. The fair value of those acquired in business combinations is based on the discounted cash flow model.

As an amortising asset, an impairment assessment is required only when an impairment trigger has been identified. The assessment is carried out by comparing the carrying value of each relationship and the remaining consideration that the Group expects to receive for services which are derived from the customer relationships. The recoverable amount is calculated based on fair value less costs to sell using FuMA multiples or turnover multiples derived from recent market transactions. Where necessary a value in use calculation is carried out to support the assessment. For each relationship the estimated remaining recoverable amount exceeds the carrying value and therefore there is no indication of impairment.

10.3 Internally generated software

Internally generated software is software designed, developed and commercialised by the Group.

10.4 Sensitivity

To quantify the impact of COVID-19, additional sensitivity was applied to FuMA at 31 March 2020 levels, at which point the effect of market falls was accounted for as the situation unfolded in the last quarter of the financial year. Whilst markets have seen some recovery after the year end, the additional sensitivity was applied to gain comfort over the impact of volatile markets.

In respect of Goodwill associated with Investment Management Services, when assessing the carrying value as a percentage of FuMA at 1.30%, the value of FuMA for the CGUs would have to fall between 19% to 83%, before the carrying value would exceed the recoverable amount. For Customer relationships intangibles, there are a significant number of relationships associated with the overall balance with a wide range of carrying values. Applying the same methodology (1.30% as a percentage of FuMA), the value of FuMA associated with the relationships would have to fall between 45% and 99%, before the carrying value would exceed the recoverable amount.

This additional sensitivity analysis concluded that sufficient headroom existed between carrying values and the threshold for impairment to the relevant CGUs and relationships.

In respect of Goodwill associated with Charles Stanley Direct, we applied sensitivity analysis to the asset values from recent market transactions, which were used to determine the fair value of the CGU. A range of scenarios were modelled, with the impact of a 40% reduction in the price paid per £1.0 billion of assets applied against the average price paid of £6.4 million in recent market transactions. The carrying value of the CGU was adequately supported.

11. Leases – the Group as a lessee

The Group has entered various leases in respect of property as a lessee. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Most leases typically run for a period of 5 to 10 years, with an option to renew the lease after that date. Extension and termination options are included in a number of leases to maximise operational flexibility when managing the assets of the Group. The majority of extension and termination options held are exercisable by the Group and not by the lessor. None of the properties are sub-let by the Group. Other than property, there are no further classes of assets that are leased by the Group.

11.1 Amounts recognised in the balance sheet

	2020
	£000
Non-current asset	
Property right-of-use assets	10,381
	10,381
Lease liabilities	
Current	2,825
Non-current	9,718
	12,543

11.2 Lease liabilities

	2020
	£000
Contractual undiscounted cash flows	
Less than one year	3,545
Once to five years	9,977
More than five years	1,074
	14,596

11.3 Amounts recognized in the income statement

The application of IFRS 16 has resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to the previous standard, IAS 17. During the year ended 31 March 2020, the following amounts were recognised in the consolidated income statement:

	2020
	£000
2020 – Leases under IFRS 16	
Depreciation	2,416
Interest expense	924
	3,340
2019 – Operating leases under IAS 17	
Lease expense	3,338
	3,338

12. Dividends

The following dividends were declared and paid by the Parent Company in the year:

	2020	2019
	£000	£000
Final dividend paid for 2019: 6.0p per share (2018: 5.5p)	3,047	2,791
Interim dividend paid for 2020: 3.0p per share (2019: 2.75p)	1,527	1,396
	4,574	4,187

A final dividend of 6.0 pence per share was declared by the Board on 27 May 2020. This will be payable on 16 July 2020 to registered shareholders as at 11 June 2020.

Dividends are payable from the Parent Company's distributable reserves which comprise the sum of retained earnings and the merger relief reserve.

13. Reconciliation of net profit to cash generated from operations

	2020	2019
	£000	£000
Profit before tax	17,322	11,030
Adjustments for:		
Depreciation	4,117	1,630
Amortisation of intangible assets	1,869	2,027
Share-based payments – charge for employee services	(1,783)	3,128
Retirement benefit scheme	151	(160)
Dividend income	(115)	(101)
Interest income	(539)	(608)
Interest expense	985	76
Profit on disposal of financial assets	(89)	(55)
Gain on disposal of property, plant and equipment	(18)	(293)
Changes in working capital:		
Unrealised gains on financial assets at fair value through profit or loss	154	39
Increase in receivables	(12,440)	(12,451)
Increase in payables	16,235	17,182
Net cash inflow from operations	25,849	21,444

14. Subsequent events

There were no material adjusting events prior to the date of signing this report.

15. Forward-looking statements

This announcement has been prepared to provide information to shareholders to assess the current position and future potential of Charles Stanley Group. It contains certain forward-looking statements with respect to the Group's financial condition, operations, and business opportunities. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from what is expressed or implied by the statements. Any forward-looking statement is made in good faith based on information available to the Directors as of the date of the statement. Past performance cannot be relied on as a guide to future performance.