

COMPANY REGISTRATION NUMBER: 04630661

**STANDARD FINANCIAL GROUP PLC**  
**FINANCIAL STATEMENTS**  
**31 March 2012**



**STANDARD FINANCIAL GROUP PLC**  
**FOR THE YEAR ENDED 31 March 2012**

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# **STANDARD FINANCIAL GROUP PLC**

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# STANDARD FINANCIAL GROUP PLC

## CHAIRMAN'S INTRODUCTION

FOR THE YEAR ENDED 31 March 2012

I am pleased to present the 2012 Annual Report of FINANCIAL plc. The company performed well in 2011/12 despite mixed trading conditions as the financial services industry reported higher demand for advice and there was increased revenue per adviser. This is despite the recession and more intense regulatory pressure. Total turnover increased and profit was maintained and the Board is very satisfied with the final performance. Further details of the financial results are set out in the Financial Five Year Summary.

There were a number of notable strategic achievements during the year which are expected to underpin FINANCIAL's growth agenda over the decade ahead. There was rapid progress in developing our IT solutions, including a new solution [www.adviser-center.co.uk](http://www.adviser-center.co.uk) and we built significant bridges with product providers. We also reduced risk and maintained the customer base and market share.

It proved to be a difficult year for most IFA Networks as the RDR looms and the FSA have a key concern about operations in the network field – articulated in their Retail Conduct Risk Outlook. In contrast the customer facing IFAs reported increased turnover due to increased demand for financial services and a reducing supply of competition. We are approaching the Retail Distribution Review watershed with strong momentum and confidence. FINANCIAL is well-placed to benefit from that momentum, with plans to expand its operations to meet rapidly growing demand from IFAs who are looking to focus on customer activities and outsource their ever expanding compliance requirements.

We have a five-year plan to increase turnover and we are now entering year two of that plan. Although the industry is shrinking at a measureable rate, to maintain size will in itself be an achievement. Although the number of IFAs in the industry is shrinking fast, those remaining are flourishing at an increased rate.

We have this last year seen even greater formalisation of FINANCIAL's operations, risk and compliance function and we have continued to improve our strong framework of control over employees and IFAs. We have improved and expanded the training and monitoring programmes, revised policies and procedures, and recruited additional experienced managers in various support roles.

During the year the Risk Committee met to discuss key risks facing the group and those and the related controls were recorded in the risk register. This assessment drives the capital adequacy review process of the group. This is a key operation in today's regulatory climate.

The Audit Committee keeps under review the effectiveness of the company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risks. We apply a strong quality control over our procedures.

# STANDARD FINANCIAL GROUP PLC

## CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 March 2012

I chair the audit and the nomination and remuneration committee meetings and regularly attend the risk committee meeting. I believe that we have a balanced board with relevant skills and experience for the current environment. The board seeks to evaluate its own performance and review the effectiveness of itself and its committees. The results of the evaluation this year were supportive of the decision making and board processes and endorsed the function being undertaken in the remit of the committees in particular George Hayter, as the senior independent director, may undertake, in consultation with other directors, an evaluation of my performance as Chairman.

FINANCIAL is committed to helping implement the FSA's RDR in order to drive standards higher and tighter for competence and compliance across the financial adviser industry. FINANCIAL is implementing training for all its advisers using face to face as well as electronic communication. The results are positive to date with the majority of advisers are well on their way to being qualified.

The Group is stable and growing, well capitalised with no long term bank debt and has a strong board of directors. I am very confident of our future. All our staff have impressed me with their dedication and commitment to higher quality standards. Many staff have voluntarily taken exams and have been studying in their own time to improve their knowledge base. This will help the business in the future.

Our key move this year was the appointment of Brian Galvin as Sales Director and his experience will provide a real boost to our proposition in the marketplace. We have a first class team of directors who run this business, with experience drawn from different sectors of the financial marketplace, which enables us to capitalize on the tremendous opportunities in the IFA field at present.

Over the next few years FINANCIAL will be making significant investments in its Information Technology and plans to expand further by organic growth. We have a unique model and are a well run operation. I am confident that this combined with a top quality team of directors, senior managers and staff, and with our high quality advisers, will see FINANCIAL achieve its objectives over the years ahead.

Ian McCallum



Chairman

**STANDARD FINANCIAL GROUP PLC**  
**COMPANY DETAIL**  
**FOR THE YEAR ENDED 31 March 2012**

<b>Company registration number</b>	04630661
<b>Registered office</b>	Unit 1 Andoversford Business Park, Cheltenham, Gloucestershire, GL54 4LB
<b>Website</b>	<u><a href="http://www.financial.ltd.uk">www.financial.ltd.uk</a></u>
<b>Domicile and legal form</b>	Standard Financial Group Plc is a company incorporated in England under the Companies Act 2006. The company is resident and domiciled in the UK.
<b>Accountants and Auditors</b>	Nexia Smith & Williamson, Chartered Accountants and Registered Auditors, Portwall Place, Portwall Lane, Bristol, BS1 6NA
<b>Solicitors</b>	Norton Rose LLP, 3 More London Riverside, London SE1 2AQ
<b>Bankers</b>	HSBC, Bath Road, Cheltenham, Gloucestershire, GL53 7RA
<b>Registration</b>	The Group is authorised and regulated by the Financial Services Authority

**STANDARD FINANCIAL GROUP PLC**  
**GLOSSARY OF TERMS AND ABBREVIATIONS**  
**FOR THE YEAR ENDED 31 March 2012**

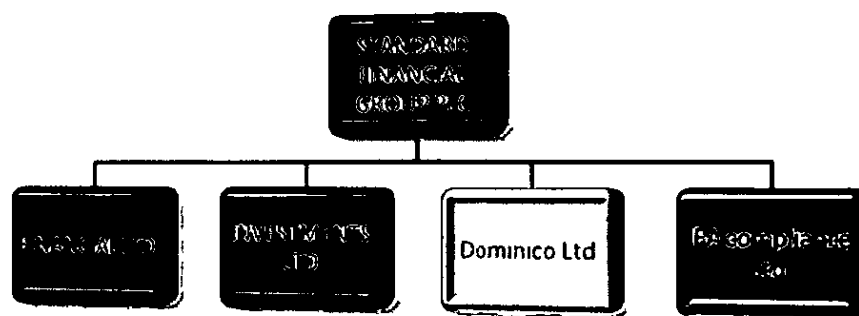
<b>AR</b>	Appointed Representative
<b>ARCH CRU</b>	Two UK open-ended investment companies authorised and regulated by the FSA which invested in a series of Guernsey-domiciled investment companies
<b>CAPITAL ADEQUACY</b>	FSA requirements for capital The group has a target which is to pass the FSA minimum solvency requirements at all times by at least 200%
<b>CEO</b>	Chief Executive Officer
<b>COMMISSION DIRECT</b>	FINANCIAL are unique, because unlike other networks they do not reconcile the IFA's own commission The IFAs do that, and report it on Phossil
<b>CLAWBACKS</b>	When the commission is factored or paid under indemnity terms, as explained, if the money is reclaimed by the provider the industry term is "clawed back"
<b>The Core Group</b>	Financial Limited, Investments Limited and Standard Financial Group Plc
<b>Credit Institution</b>	The European Union, via the FSA, defines all financial services institutions that hold customer assets or money as credit institutions
<b>CRD</b>	Capital Requirements Directive (which modifies CAD)
<b>DA</b>	Adviser firms directly authorized by the FSA
<b>FCA</b>	Financial Conduct Authority
<b>Financial Direct</b>	IFA Compliance Limited's trading name
<b>Financial</b>	The name used for the Group
<b>FSA or Regulator</b>	Financial Services Authority
<b>FSMA</b>	Financial Services and Markets Act 2000

# STANDARD FINANCIAL GROUP PLC

## GLOSSARY OF TERMS AND ABBREVIATIONS

### FOR THE YEAR ENDED 31 March 2012

**The Group** Standard Financial Group Plc, together with each of its wholly owned subsidiaries that provide the regulatory authorisation and related assistance to Independent Financial Advisors Financial Limited, Investments Limited, and IFA Compliance Limited



**Hybrid-Network** A fee based Network for fee based independent financial advisers

**ICAAP** Internal Capital Adequacy Assessment Process

**IFA** Independent Financial Adviser

**Indemnity provision** Literally factoring IFAs receive their commission direct from the providers However, some commission is “factored” meaning paid in the expectation of future premiums being paid by the customers

**IT** Information Technology

**KPI** Key Performance Indicators

**MI** Management Information

**Network** Industry term for Franchise Unlike most franchises, the trading names tend to belong to the IFAs Two-thirds of the 25,000 IFAs in the UK, inside 12,000 firms belong to Networks The remainder are authorised directly by the FSA

**Phossil** The Group’s in-house IT software



**STANDARD FINANCIAL GROUP PLC**  
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**PII or PI** Professional indemnity insurance

**RDR** The Retail Distribution Review

**RI** Registered Individual

**TCF** Treating Customers Fairly

# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

**In this section we provide a ten-point overview of FINANCIAL, what we do and how we have performed**

### **FINANCIAL IN TEN**

#### **1. Highlights**

Capital surplus over the FSA minimum well in excess of target 200%

Excellent growth in key underlying activity as per strategic target

Continued progress with compliance and risk targets

#### **2. Financial summary**

Annual turnover growth at 4%

Annual operating profit fallen by 18%

Annual pre tax profit from continuing operations consistent with previous years – a good result in a challenging market

No long term bank debt

*FINANCIAL* has demonstrated that, as a result of investments made over a long period, its overall business is in good shape under the control of an experienced board of directors. The key performance indicators are shown within the five year summary

#### **3. What we are**

*FINANCIAL* pioneered the hybrid-network model and supports a franchise agreement of over 500 IFAs across the UK with their compliance functions

#### **4. Diversity of our business**

*FINANCIAL*'s IFA businesses are distributed across more than 400 locations in the UK, with no particular geographical bias. See [www.financial.ltd.uk/ifa\\_map/](http://www.financial.ltd.uk/ifa_map/)

#### **5. Our strategic goals**

*FINANCIAL*'s strategic goals are clear – to be the best run network in the UK

# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

### **6. How we measure our progress**

The five year summary shows which ratios *FINANCIAL*'s management use to measure the development of the business. We set out in the business plan to make 2011 "A year to focus on the IFA" and we have achieved that with significantly reduced risk- see the CEO report

### **7. How we have performed**

*FINANCIAL* have achieved this growth in probably the worst downturn UK industry has seen since the Second World War, in the face of a global regulatory backlash against "credit institutions" (such definition includes *FINANCIAL*) and with great uncertainty in the business world reflected in a stock market that looks unattractive to some investors

### **8. Managing risk**

The directors believe that a sound control environment and robust risk management are fundamental to *FINANCIAL*'s business. The significant risks of the Group are continually monitored, assessed and managed at the relevant level. The network is particularly pleased to have mitigated all key identified risks by establishing controls and communication flows at board level and below using its own proprietary software [www.phossil.co.uk](http://www.phossil.co.uk)

### **9. How we are rewarded**

The policy behind the executive directors' remuneration is aligned with the interests of the business and its shareholder who is the CEO. Capital distributions such as dividends have not been made for two years now, respecting the key measure of capital adequacy and a desire to strengthen during this downturn

### **10. Our key resources**

*FINANCIAL* is managed by an experienced board of directors who are responsible for strategy and long-term business objectives, acquisitions and major investments

# STANDARD FINANCIAL GROUP PLC

## FOR THE YEAR ENDED 31 March 2012

### OUR TENTH ANNIVERSARY

This year we celebrated our tenth anniversary and so we would like to give a timeline of key events

2002	First Appointed Representative approved
2003	Moved to the fees only hybrid-network model
2004	PII crisis accelerates growth as FSA tells firms to join networks
2005	Bought IFA Compliance Ltd to support DA firms
2006	Phossil platform system launched
2007	Moved office to Andoversford
2008	Non Executive Chairman Ian Maccallum joins
2009	Our 500 <sup>th</sup> member joins
2010	Sale of in-house IFA FPC Ltd
2011	Brian Galvin joins as sales director
2012	10 <sup>th</sup> anniversary

### FINANCIAL FIVE YEAR SUMMARY

Trend Analysis	2012	2011	2010	2009	2008
Revenue £'000s	26,672	25,642	17,788	13,726	12,857
Gross profit £'000s	3,429	3,254	2,999	2,536	1,847
Operating costs as a % of revenue	12%	12%	16%	20%	13%
Profit/(loss) before taxation £'000s	136	135	82	(172)	254
Cash balances £'000s	1,405	1,115	824	514	636

# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

### **GROUP CEO REVIEW**

#### **INTRODUCTION**

This year we celebrated our tenth Anniversary. Ten years ago it would have been difficult to predict that regulation could become so resource hungry, that bancassurance should be so discredited, that the FTSE100 should be 62% lower in RPI terms than in 1998, that the UK should be in recession, and that the IFA brand would be stronger than ever before. As the fifth biggest IFA Network in the UK we are well set to benefit from these changes.

As one of seven key networks in the market place the FSA's annual Risk Conduct Outlook Report has a direct bearing on us. For two consecutive years this report has listed Network operations as a key risk to their objectives, and risk number 15 this year, and we take this into account in our own operations.

Events have helped to make FINANCIAL stronger and better managed. We have built capital, maintained profit and reduced risk. We operate within a tightly defined set of morals. For instance our motto of "Humility, Integrity and Discipline" is engrained throughout the Group's thinking and is evidenced in many of our dealings. An indication of its impact is that nearly all the feedback that we receive whether positive or negative, mentions this motto.

Our profit this year was achieved by concentrating on the core operation of running the best network in the UK. That is our number one objective. In many ways we have achieved this but the work remains unfinished and we want to increase the gap. We continue to pioneer innovations such as the fee based hybrid-network model which has been a key to greater efficiencies to date.

Key highlights for us include a complaint rate of just 11 upheld cases out of 44 complaints during a year when some 25,000 cases were arranged by advisers. We turn away more IFAs than we take on, and in fact 50% are rejected before they have applied in writing mainly due to falling short of our standards but some due to business model concerns. We operate in a shrinking industry but have maintained growth in most areas. We rigorously audit the adviser case-work in all the higher risk categories and this means a total of 25% of all cases across all risk categories combined are now checked. We have seen a significant uptick in file check scores over the year and a reduction in both risk scores and failure rates, which indicates that our training is paying dividends and our risk profile is reducing. We are a profitable, well capitalized firm with a low appetite for risk that treats its customers fairly.

Last year turnover rose, the number of individual advisers increased, risk as measured by file scores was reduced and we built capital into the business with capital adequacy well in excess of our internal target of 200% of the Individual Capital Guidance, and finally we have a stronger cash position.

We have achieved this while reducing risk in many other areas, paying a significant increase in PII premiums, paying increased FSA related fees and with yet another unexpected Financial Services Compensation Scheme's ('FSCS') interim levy hitting us in March this year. This is a fantastic achievement. But there is more to come.

## **STANDARD FINANCIAL GROUP PLC**

### **FOR THE YEAR ENDED 31 March 2012**

#### **DELIVERING ON STRATEGY**

At the half way point last year it became apparent that we would be unlikely to hit target for profit. This was not taken seriously enough and in retrospect we should have gone further than the immediate action of hiring a new sales director. The Board accepted the possibility of under-delivery in order to keep in step with the long term strategy and we are keen not to repeat that mistake. This year we have the same target, but will move faster to address any projected shortfalls at any time that they might arise.

Our key aim for the year is to move the organisation towards being advice led. This means that we want to have more influence on the shape of advice delivered by the end of the year. It is understood that one side effect may be an increase concentration risk.

The Sales director appointment brought Brian Galvin from Friends Provident onto the board and we have, with his input, for the first time built strong bridges with providers and promoted our name with that key audience. In addition bancassurance is clearly dying and we have appointed a number of advisers from that arena.

With Brian Galvin's influence we have invested heavily in the brand this last year. We are better known, more widely respected and we believe that we are perceived to have left the shadow of the small and innovative to become stable and respected. Evidence for this lies in the acceptance of an increase in fees for new members joining the organisation since the half way point. This had no noticeable effect on demand or conversion rates and so we believe that this strategy has paid off.

We would like to double in size over the next five years, but this can never be achieved by cutting corners or using regulatory arbitrage to attract IFAs to our service. The framework in which we operate is given by our motto "*humility, integrity and discipline*". We aim to keep our discipline by straight dealing at all times and we believe that our customers vouch for this at every opportunity. This is a tough regulatory period and almost every week has delivered another fine to another bank or practice for mis-selling – totaling close to £100m once again for the year. This is not a time to expand the balance sheet without great care. The board recognises that we are behind schedule on our long term objective and believe that the position is recoverable.

Capital adequacy is a key metric that we follow and failure here would obviously be critical. The Board's internal target for capital adequacy is exceeded by a wide margin. This is explained in more detail in our Pillar 3 statement available on our website. All our capital is held as Core Tier 1. This is a comfortable level in which to operate, from a regulatory perspective. Cashflow or profit are key metrics but capital adequacy is the number one risk in financial services. Without surplus capital there is no trade.

Under the leadership of our group finance director Angela Evans, budgets are set to aid management of our objectives and they have greatly increased the visibility for navigation during key decision times such as board meetings.

## STANDARD FINANCIAL GROUP PLC

### FOR THE YEAR ENDED 31 March 2012

Our Risk Director Paivi Grigg has helped the board articulate our risk appetite very clearly (it is listed on our Pillar 3 statement on the website) and all of our operational decisions are made with reference to this

Compliance Director Steve Bell takes the credit for general reduction in risk of operations. Our IFAs have improved their file scores through the year, and all the high risk business and high risk advisers are subject to a strong quality assurance regime. All advice and advisers are nonetheless subject to stringent due diligence – delivered via rigorous checks of all the key advice documents inside the client files

The Retail Distribution Review is a cliff edge moment in financial services, and has been six years in the making. We believe that the three strands of examinations, fee charging and business model are well on the way to being embedded before the deadline and we are committed to this via our monthly RDR plan that is used daily by the board and senior management. We have only recruited advisers who want to remain in the business post RDR. Using figures from 2004 FINANCIAL have the highest retention rates for new recruits in our peer group at 90%. The average among competitors is much worse with 60% of all the AR firms that have joined since 2004 leaving. This is a credit to our strategy of recruiting quality IFAs for the long term

## REGULATION

The post credit crunch environment for financial services is one where “FSA” is on everyone’s lips. The “*be very afraid*” speech by the Chief Executive of FSA has certainly kept us wary of our expanding our balance sheet and taking extra risk despite our long term objectives. In recent months we have seen the first implementation of Sections 165 and 404 of FSMA. Continued contact with the FSA is very time consuming, but also welcomed as it helps to align our own interests with the FSA and with regular contact there is less risk of skiing “*off piste*”. In any case, our business is regulation – so we expect nothing less.

The overall effect may push our industry in unexpected directions. One effect is vertical integration - towards a tied agency model that was last dominant in the early 1990’s. Equally many who are dabbling in investment advice have discovered the dangers of playing at it. Law firms, accountancy practices and affinity groups, as well as banks, building and friendly societies are pulling out of non core advice areas and leaving this specialism to the IFA. The supply of advisers is drying up, competition for advice is now scarce and with the demand for advice during this crisis higher than in the easy years, the price paid per hour by the customer is rapidly increasing - funding higher standards all round.

The impact of RDR should not be underestimated. The three strands are examinations (half of our advisers have completed gap fill and passed final examinations), fee charging (which is not a big hurdle for the advisers), and business model (restricted versus independent). This third is being

## STANDARD FINANCIAL GROUP PLC

### FOR THE YEAR ENDED 31 March 2012

developed by advisers on a bottom up approach as I write. There is expected to be a 10% gross reduction in advisers at the end of this year due to this impact and this means higher fixed costs shared out for those remaining in the industry. There are some minor issues as well - some firms will have to drop their independent name and others may have to introduce VAT into their new charging models. FINANCIAL keep a monthly tracker plan of our progress against the RDR objectives and we remain on target at time of writing to implement all the changes by the deadline 31<sup>st</sup> December 2012.

There are six areas of regulatory focus that all should lead to better consumer outcomes and these are listed below with our response alongside.

- 1 Management Information (MI) Directors deliver MI to the board. Much of the information is extracted from our in-house software system Phossil, which delivers exactly what we want when we want. Six developers work full time on this system.
- 2 Monitoring The monitoring of advisers is carried out via Regional Compliance Managers, on a face to face audit basis, and by remote file checkers who call up and audit files that are picked according to a risk based system.
- 3 Senior Management and Executive Management Team – comprises executive directors and occasionally invited senior staff and a board of directors control this organisation.
- 4 Recruitment 50% of all initial applications are rejected, and asked not to apply. This initial screening works well with only a small number of those who ask to join being subsequently rejected. Our retention rates, as explained above are excellent in a climate of a shrinking market.
- 5 Control The control of our organisation is via the Board of directors to whom staff are held accountable.
- 6 Training and Competence This area has a dedicated department and has been in heavy demand with RDR examinations being taken on an active basis due to the impending RDR demands.

## MODEL

*"You have a good model and are a well run business"* So said one practice that uses our services, and it encapsulates what we are trying to achieve. We operate within our motto of *"humility, integrity and discipline"* and many of our IFAs really buy into this standard. We use our own innovations like Phossil to give us the information we require to run the business as we would like. The hybrid network model is, said another, *"a breath of fresh air"*.

We differ from competitors by being a bottom up business. Our IFAs (at the bottom) use their own tools to design the solutions that their customers seek. The model is good for the IFA who wishes to remain independent and spend the maximum amount of time in customer facing work. 2/3rds of all IFAs operate within this franchise or network model.



## **STANDARD FINANCIAL GROUP PLC**

### **FOR THE YEAR ENDED 31 March 2012**

Key benefits that IFAs gain from membership of our network are these

- 1 A licence to trade
- 2 An umbrella of support operations – Training, competence, supervision, research, agencies and so on
- 3 No direct FSA communications
- 4 Risk transfer - Just do as we tell you and your compliance will be clean
- 5 No capital adequacy calculations, except for the Network
- 6 Speedy authorization process
- 7 The ability to run their business aligned to their customer needs but within a strong compliance framework

### **OVERALL GOALS**

We are in our second year of our five year business plan to double the size of the business. We retain a large amount of cash on the balance sheet and have concentrated this last year on reducing risk, pushing file scores down and investing in the brand.

Our business plan will, this year, push us closer to the advice delivery, and we seek to be less finger wagging with our IFAs and more engaging with their plans and client-end solutions. One further theme is positive compliance. Everyone knows that compliance should help your organisation, but all too often it becomes a negative experience. We aim this year to congratulate good practice and give IFAs something to aim for.

### **COMPETITION**

The key competitor of Bancassurance is in full retreat. Most banks by volume have closed their advice to the mass market to new business and some are closing new business even to the mass affluent. Banks will remain a solution to the High Net Worth and sophisticated market but this is not normal IFA territory – which lies squarely in the mid tier mass affluent sector.

Alternative models have emerged in recent months and they look like vertical integration in various guises. Fund managers need a route to market, and advisers are under financial pressure from the regulator – hence the match. This is an unexpected consequence of the RDR's ban of commission.

As has been mentioned we suffer from the FSA themselves approving small directly authorised IFAs who want to save resources by going under the radar of the FSA's risk based approach to regulation. With a PII crisis looming many of these small firms would be forced to return to an umbrella organisation such as our own. Exit interviews with these IFAs show a striking lack of criticism of our operations and we impose no artificial blocks to their exit, which is sadly an unusual manoeuvre in this industry.

IFAs in general control 80% of the distribution of financial products in the UK and this puts *FINANCIAL*, with 2% market share, in a strong position among our peers. *FINANCIAL* are considering new areas but remain cautious of leading the way through 2012/13.

# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

### **1. TREATING CUSTOMERS FAIRLY**

Doing good is good business – and it has certainly been good for FINANCIAL. The TCF initiative is alive and active in our organisation. All staff have recently been asked to complete online exams on the subject, and individual advisers keep active online TCF folders on their Phossil software.

### **2. SOCIAL RESPONSIBILITY AND OUR PEOPLE**

We take our social responsibilities seriously. We sponsor a child in India by monthly standing order. We have monthly, quarterly and annual awards for best employees and for outstanding behaviour. We have similar processes in the pipeline for IFAs, under our positive compliance initiative.

This year we will finalise a share option scheme that will distribute up to 20% of the organisation to the employees. In addition, long service awards were distributed to the ten longest serving employees on our tenth anniversary.

### **3. GOVERNANCE**

As CEO I set the tone, hire the people and set the agenda. But it is the board of directors that controls the Governance.

FINANCIAL have eight board meetings each year, plus a strategy meeting and a budget meeting. Challenge is provided via these forums as well as through the various committees of risk, audit, nomination and remuneration, compliance and corporate governance itself. The executive teams and individual meetings that spin off this central governance structure also control behaviour and decisions.

### **4. OUTLOOK**

This is a really hard period. The new FCA will undoubtedly be keen to make a mark early on with some high profile cases and FINANCIAL must remain a low risk to the regulator's objectives. The exit of so many – more than 20% by some measures – from the advice field in the next twelve months is, on the other hand, a once in a lifetime opportunity for FINANCIAL to expand market share and cement our position in the heart of the financial adviser community.



C A Llewellyn Palmer  
Chief Executive

# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

### **SALES & DEVELOPMENT REPORT**

#### **The Market:**

Having spent a very challenging but enjoyable eight months with FINANCIAL it is interesting to stop and take stock of what has happened from a Sales & Development viewpoint. It is without doubt the most challenging environment I can remember in my twenty six years in financial services – we have almost the perfect storm of turbulent markets, recession in key western markets, significant regulatory change and customer apathy towards financial services as whole.

#### **The Network:**

With this sort of back drop FINANCIAL will not be alone in finding market and business conditions challenging. That said I think the business has more than held its own. The Sales team has managed to generate 98 new Registered Individuals with a further 22 in the process of joining for the year 2011-12. Whilst shy of our overall target (due to a fall away in the number of direct applications from existing members) this is a very creditable performance. I have tried to focus our efforts on lead generation and getting our message out to the market – I remain confident that the proposition FINANCIAL offers in the network environment is the best for experienced advisers, who know what is best for them and their clients. We firmly live up to the “give us your compliance not your business” strapline.

The Network market is extremely competitive as we see the impact of the Retail Distribution Review and economic conditions on IFA numbers. FINANCIAL had 100 RI's leave the Network in the year and the majority of these (62) left due to economic conditions, retirement or simply exiting the industry. It is particularly sad to see qualified and experienced advisers leaving the industry but this is something that the increased regulatory burden will hasten. On a more encouraging note for FINANCIAL only 12% of leavers moved to a competitor network, and most of those were reluctant movers who had sold or merged their practices into those organisations, or accepted job offers for firms under those networks – which reinforces my view that we have a strong proposition in the market place. Yes it will get more competitive with market consolidators and networks offering soft loans and other inducements but we remain committed to offering a top service to experienced, qualified advisers who in turn provide an excellent service to their clients. FINANCIAL are also well placed to benefit from IFA's leaving other businesses that are imposing controlled distribution models on their members and the fallout from banc assurers exiting the IFA market place. For the latter group we are exploring a “guided” advice model that will be a new and exciting development for FINANCIAL.

FSA figures show that adviser numbers have declined across the market over the last three years (28,000 to 21,000). This does mean more competition but we have maintained our practice of recruiting well qualified and experienced professionals – we turn away far more than we speak to when it comes to the recruitment process. This will remain a cornerstone of our market activity this year.

## **STANDARD FINANCIAL GROUP PLC**

### **FOR THE YEAR ENDED 31 March 2012**

#### **Provider Partners:**

FINANCIAL has introduced its first formal Partnership Programme to ensure we work ever more closely with the manufacturers of the products our IFA's advise upon. We feel this is important as it allows FINANCIAL a voice with some of the largest businesses in our sector and at the same time opens the door to some of the first class resource these firms offer the adviser community. Over 20 firms have joined us as Partners and that some of the best known and largest brands are amongst them. We will look to build on these links and yet retain an independent spirit in all dealings with our Partners.

#### **IFA Consulting:**

Our Directly Authorised proposition remains important to the Group and I am currently revamping the brand and proposition to reflect what we feel the market will need from 2013. We have seen the number of clients fall slightly but I am hopeful that we will reverse this trend this year and next. It is important that we set out our ability to act as a consultant or business support provider rather than acting as a quasi-network. FINANCIAL Group has the expertise and technology offering to help the right businesses grow and meet their regulatory requirements we just need to get this message to the right segments of the DA market.

The re-brand and relaunch of this proposition should be complete by June and I for one expect to see some positive results from this activity.

#### **Summary:**

One man's challenge will be another man's opportunity – this for me sums up the current market. I feel confident that if we meet the challenges we face head on then FINANCIAL will make significant headway as there remains a real opportunity in the post-RDR market. It is far more than survival, it is about thriving in a new and challenging business environment.

# **STANDARD FINANCIAL GROUP PLC**

**FOR THE YEAR ENDED 31 March 2012**

## **FINANCE DIRECTOR'S REPORT**

Historically it has been the financial services industry that has been a key driver in UK growth, unfortunately the industry has stagnated whilst it copes with the changing regulatory challenges ranging from bank levies to the RDR. This has resulted in the UK dipping in to recession again. It is a challenging time to be part of the financial services industry.

At FINANCIAL we strive to deliver an excellent value for money service to the IFA industry which is focussed on the consumer. We enable IFA's to focus on the most appropriate service for their clients by supporting them in offering a flexible compliance service. It is key that we achieve an effective balance between the provision of a high level of monitoring of the IFA's whilst maintaining a cost efficient service within a capital strong company.

During the last year we have seen a general contraction of the industry and in the early part of the year it was becoming obvious that sales targets were falling below expectation. This prompted the recruitment of a sales director. This has improved the sales performance towards the latter part of the year and FINANCIAL has been able to achieve a static level of membership.

Investments Ltd has significantly downsized and cut costs resulting in a small loss in the year, however compared to the loss of £255,000 in the previous year this represents a much improved position. Investments is in the final stages of moving funds onto an external platform which will enable the exploration of opportunities to expand these services with a scaleable back office.

Unfortunately the cost of delivering the compliance service has risen significantly over the year mainly with increased PII costs and regulatory costs. Losses incurred from indemnity commission clawbacks has led the group to decide to reduce risk and reject IFA's that have indemnity based business models. New provisions have also been factored in for Arch Cru. Despite these pressures the group has reported an overall profit of £135k for the year.

In order to continue to build a strong capital base which will ensure the future of the network, we introduced a new pricing structure to encourage the correct behaviour in our members by allocating a low, medium and high risk tariff. This allows the IFA to understand the impact of high risk products or poor compliance behaviours. A further significant increase in price has been implemented shortly after the year end. This will be reflected in next year's results.

The future indicates uncertainty surrounding the RDR and the number of IFA's that will continue to trade post 1 January 2013. Although current indications are that the percentage reduction will not be as high as feared, a significant reduction has been factored into the forecasts and it is a real credit that the Group remains on track nonetheless for profit growth and enhanced capital strength.

# **STANDARD FINANCIAL GROUP PLC**

**FOR THE YEAR ENDED 31 March 2012**

## **COMPLIANCE DIRECTORS REPORT**

At FINANCIAL we deliver a strong compliance framework which treats customers fairly but allows the IFA to run his business in a way which is aligned to the needs of the customer. In essence FINANCIAL manage the compliance but not the business itself. This bottom up approach provides our IFAs the ability to take control of their business for the benefit of their customers, safe in the knowledge that FINANCIAL's compliance will ensure their work is compliant and up to standard and that their customers are protected.

During the last year, the key compliance divisions of Supervision, Central Monitoring, Internal Compliance and Training & Competence have continued to monitor and support our IFAs in producing good outcomes for customers. This has been ably supported by the use of the Phossil system.

### **Supervision**

FINANCIAL'S team of Regional Compliance Managers are the key relationship managers between the network and its IFAs. They are the hub through which monitoring activities are coordinated and network membership is managed. The use of visits, desk based reviews and monthly monitoring activities have continued to provide this support and the control needed by the network. The scoring of compliance visits has been introduced in the last year which has helped IFAs focus on their weaknesses and enable FINANCIAL to target support and training more effectively. The use of individual risk profiles in setting network fees has been used for the first time and has been a strong motivator in promoting the right behaviours from IFAs.

### **Central Monitoring**

The checking of files is a key cornerstone of our compliance regime and provides an effective risk based approach on high risk advice areas and high risk advisers. The team has dealt with a tremendous workload in the last year which has seen initial checking delivered within service standards and improvements in our IFAs advice reflected in our average file check score. Work is still needed in making sure remedial action is actioned more promptly where issues are found. The creation this year of a dedicated team for remedial action will deliver this and address failures in files more promptly. It is encouraging to see that the high majority of these failings are due to documentary errors and the instances of poor advice are very low.

### **Internal Compliance**

Complaints have continued to be low in relation to the amount of advice provided by the network's IFAs. This year has seen an increase in the number of complaints being rejected and we are pleased to see FINANCIAL's scoring of complaints matching those of FOS to a high degree, evidence shows that IFAs are delivering suitable advice and treating customers fairly. As controls around financial stability have developed this year, the team has grown to cover this important area. It is paramount that the network only allows fit and proper individuals to advise clients and this has been strictly applied to protect consumers.

# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

### **Training & Competence**

The RDR has impacted significantly on the work of the Training & Competence team in the last year. The appointment of a project manager to deliver the RDR professionalism requirements has been a key initiative and enables IFAs to attain the qualifications or Gap Fill they require. The well established bi-annual compliance seminars have been supported by a series of technical events covering more complex advice areas this year and in particular, the file construction course. This has proved useful in translating Central Monitoring requirements into practical solutions for IFAs when advising their clients. The development of training materials under the document library has continued to be effective although the take up of the learning tool, Financial Expert, has been disappointing.

### **Phossil**

The Phossil system has seen further developments over the last year enhancing its position as a compliance management system. The capture and assessment of management information for TCF has been a real success story with AR firms holding significant data on how they demonstrate the 6 consumer outcomes. Scoring of visits and file checks on the system was incorporated this year and will enable much deeper root cause analysis of weaknesses. This will result in the more effective targeting of training to improve performance and reduce risk.

### **Summary**

The coming year presents many challenges for FINANCIAL. Although the movement to adviser charging under the RDR does not present a massive shift for IFAs under the network, the decisions around business model and getting to the required Level 4 standard are more onerous. The management of the FSA's risks as detailed in their Risk Outlook will be the main focus for the coming year. This will run in conjunction with the Group's positive compliance initiative in promoting good behaviours from IFAs and its strategy to become a more advice driven operation.

# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

### **Directors' report**

The directors of Standard Financial Group Plc ("the Company") present their report, the audited accounts of the Company and the consolidated accounts of the Company and its subsidiaries (collectively together, "the Group") for the year ended 31 March 2012

#### ***Principal Activity***

The principal activity of the Group is the provision of financial services within a financial adviser network

#### ***Results and Dividends***

The group's profit after tax amounted to £108,378 (2011 £542,561) The directors recommended that no dividend be paid during the year (2011 £nil)

#### ***Review***

The Group's review of business and key performance indicators are detailed in the "Financial in Ten" and "Chief Executive's review"

#### ***Regulatory capital***

The core group is a limited license firm under CRD requirements Tier 1 capital is the highest ranking form of proprietary capital It is made up of permanent share capital, retained earnings and certain reserves The core group's Tier 1 capital on 31 March 2012 was £1,497k (2011 £979k) after deductions of £223,080 (2011 £223,080)

The capital resources requirement for the core group is its Fixed Overhead Requirement, as at the last Pillar 3 disclosure date of 31 March 2012 this was £637,000 (2011 £571,000)

Tier 2 capital supplements the core group's core capital and is made up of revaluation reserves and some types of subordinated debt The core group has not held Tier 2 capital for 2012

Tier 3 capital is made up of short term debt and interim reserves, the use of the capital is restricted to meeting capital requirements arising from market risk in the Group's trading book The Group has no exposure to market risk as it does not deal on its own account as principal nor does it have any foreign exchange exposure The Group has not held any Tier 3 capital for 2012

The Board formally reviews capital adequacy by carrying out ongoing assessment of the inherent risks, controls, risk mitigation arrangement and their effectiveness, as documented in the ICAAP document The ICAAP identifies that the Group is exposed to credit, interest rate, liquidity, operational, group and business, insurance and contagion risks

The company defines capital as being share capital plus audited reserves It is required to meet the regulatory capital requirements of the FSA at all times



# STANDARD FINANCIAL GROUP PLC

## FOR THE YEAR ENDED 31 March 2012

### *Principal risks and uncertainties*

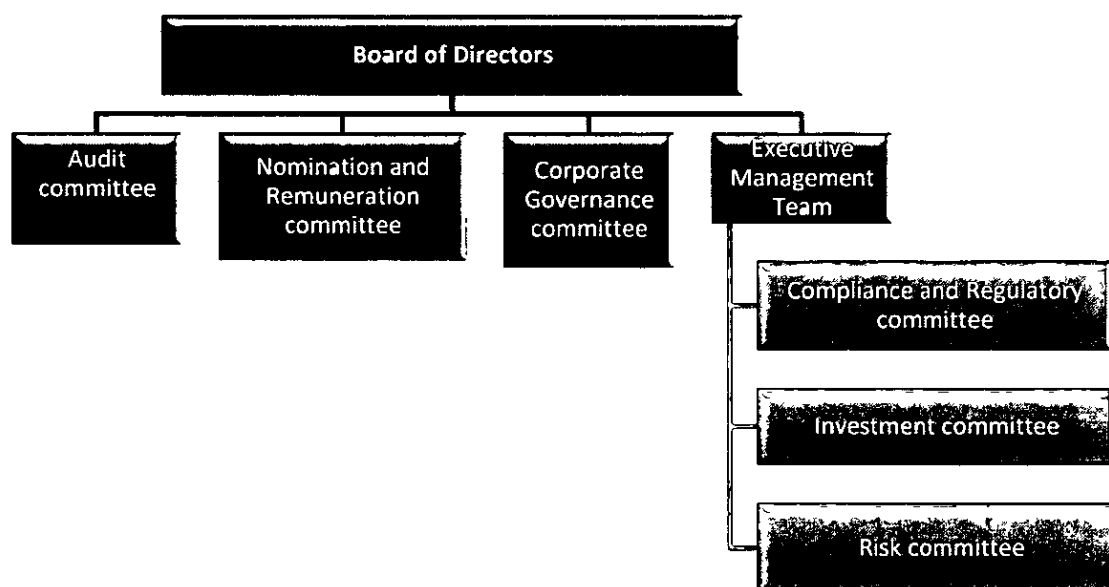
The Group provides a range of financial services to the Finance industry. As a consequence, elements of these activities are regulated by the FSA and produce a number of risks. These risks manifest themselves through compensation payable on the sale of financial products and fines imposed by the FSA for regulatory breaches. The Group operates in a strict compliance regime and uses insurance to help mitigate its risks. The group also suffers clawback when indemnity commission becomes repayable when a policy is subsequently cancelled. When such clawbacks occur, the Group recharges these to the advisor wherever possible. The group actively monitors potential clawback activity and the financial stability of the advisors to service the liability in order to mitigate this risk. The critical accounting assumptions are contained in note 2.

### *Risk Management*

The management of risk is a core skill in financial services and ensures that the Group is managed so that sensible and realistic returns can be budgeted for within the stated risk profile.

### Risk Governance structure

The overall responsibility lies with the Board of Directors and the executive committees giving them collective oversight of the risk management framework. This responsibility is also delegated to individuals employed by the Group making them risk managers for the jobs that they do, this is monitored by the quality control program which operates throughout the Group.



# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

### Risk Governance Features

- 1 Board of Directors determine strategy and delegate management of risk and control framework to the Risk and Audit committees
- 2 The Risk committee is the primary committee for monitoring and reporting risk
- 3 The Audit committee is the primary committee for setting and monitoring internal controls
- 4 Operational departments are responsible for managing quality controls
- 5 Individuals are given the responsibility to work in accordance to standard operating procedures (SOP)

### Main risks affecting the Group

The Pillar 3 risks are published in detail on the Group's website, the key risks in summary have been identified as follows

#### Credit risk

Credit risk is the risk that a borrower or counterparty will fail to meet their obligations or Group subsidiaries are unable to pay their inter-company debt. The risk lies in bank deposits, loans from other companies and where advisers have a financial obligation to the Group.

#### Interest rate risk

Interest rate risk represents the potential impact of adverse movements in interest rates on planned cash flows of the Group. The Group does not maintain a proprietary trade book and hence has no trade book interest rate risk exposures. Non trade book interest rate risk is limited to cash deposits held with credit institutions.

#### Liquidity risk

This is 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 secure such resources but only at excessive cost. It includes the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

#### Operational risk

Operational issues of risk to the Group arise from changes in its business or from inadequate or failed internal processes. This would include the risk that the Group may not be able to carry out its business plan and its desired strategy. In general, the Group seeks to mitigate operational risk by implementing a strong control environment and managing the risks proactively.

# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

### Main risks affecting the Group (continued)

#### **Group and Business risk**

Business risk includes a risk to the Group arising from changes in its unique business model including the risk that the Group may not be able to carry out its business strategy. This also involves reputation risks and the risk of losing key staff. These risks are controlled by active monitoring of the business plan against performance and strong communication with employees.

Group risk includes the concern that stakeholders have about the ability of the Board to liquidate individual Companies of the Group and dispose of liability in this way. Following consideration of the Board, it was decided that the ethos of the Group was to ensure adequate support is provided to each individual company and ensure any arising liability is covered within the group.

#### **Insurance risk**

Insurance risk is the risk of uncertainties arising from occurrence, amount and timing of insured liabilities. The Group is not in the insurance writing business. The only insurance risk that the Consolidated Group is exposed to is under its own insurance arrangements.

#### **Contagion Risk**

Financial contagion refers to the transmission of a financial shock in one entity to other interdependent entities. Risks are monitored based on the impact on the Group and on the individual company. The objective is to minimise the risk of contagion and maintain the overall risk appetite.

#### ***Business continuity***

The Group is committed to safeguarding the interests of our clients in the event of an emergency or significant business disruption. The Group has taken steps to mitigate the impact of business interruptions resulting from a wide variety of potential events, including the loss of key facilities and resources. The Business Continuity Plan has reviewed all aspects of the Group's key activities. The assessment includes for each business process the exposure to risk and the likelihood of failure and is updated annually.

#### ***Going concern***

The Group's business, risk and financial management, performance and position, which are all factors that are likely to affect future development, are described in this Directors' report and the Chief Executive's review. The financial position of the Group, its regulatory capital needs, cash flows and cash levels, liquidity position and borrowing facilities are described in the Group's financial statements. The Group has considerable financial resources to meet its financial needs. The directors believe that the Group is well positioned to manage its business risks successfully in the current uncertain economic and regulatory environment. After making enquiries and reviewing financial forecasts the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

### ***Financial risk management***

Details of the Group's financial instruments and its policies with regard to financial risk management are given in note 13 to the financial statements

### ***Supplier Payment policy***

It is the Company's policy to settle all of its trading transactions on the agreed settlement date, this policy extends to other trade creditors whose terms are normally 30 days. On average creditors were paid within 16 days in the year to 31 March 2012 (2011: 14 days)

### ***Disclosure of Information to Auditors***

The directors of the company who held office at the date of approval of these financial statements as set out above, each confirm that

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

### ***Directors and Employees***

The directors of the Company who held office throughout the year, except where otherwise stated were as follows

#### ***Directors***

S E Bell  
A Evans  
G A N Foster (resigned 31st August 2011)  
B Galvin (appointed 28th September 2011)  
P K Grigg  
G A Hayter (appointed 18th May 2011)  
C A Llewellyn Palmer  
I N McCallum

## **STANDARD FINANCIAL GROUP PLC**

### **FOR THE YEAR ENDED 31 March 2012**

#### **Employees**

As a fast growing organisation in a competitive market it is essential to recruit the highest calibre staff. We encourage staff to apply for any internal vacancies and our policy is to advertise internally first thus giving our staff an opportunity to progress before we look externally for suitable candidates.

The Group policy is to train and retain our staff. For individuals with appropriate experience we encourage further training. Our key criteria are to recruit employees who are technically capable and qualified but also sincere, straightforward and have the drive to move the company forward. In line with our Human Rights policy and Diversity policy the Group is committed to providing a working environment in which all our employees are able to realise their full potential and to contribute to the business success irrespective of gender, race, religion, age, creed and culture.

#### **Auditors**

A resolution to re-appoint the auditors, Nexia Smith & Williamson, will be proposed at the next Annual General Meeting.

On behalf of the board



P K Grigg

Company Secretary

Date 27/06/2012

**Company registration number: 04630661**

# **STANDARD FINANCIAL GROUP PLC**

**FOR THE YEAR ENDED 31 March 2012**

## **Corporate Social Responsibility**

### ***People***

The Group makes every effort to manage people in sympathy with their own circumstances

### ***Integrity and Ethics***

The Group takes their motto very seriously of Humility, Integrity and Discipline. This is reflected in our attitude to staff and the time taken to help them develop. Our key criteria, assuming the relevant competence and qualifications are present, is to recruit people who are sincere and straightforward.

### ***Customers***

The Group is keen to put its customers first at all times. If the needs of the customers are attended to within the moral and ethical guidelines laid down by the Board, then the future of the business should be secure.

### ***Environment***

The Group is based in the Cotswolds and believes that we work in sympathy with our environment. Most of our office-based staff live within a radius of 2km to 30 km of the Group's premises.

### ***Community***

Each year we take one or two students who are looking for work experience. We give them an insight to the work we do over the course of one week.

### ***Charity***

As well as providing financial help, where practical and appropriate, Financial gives time, which is often a much more valuable contribution. We like to support community partners and to help develop sustainable relationships. As a people business, we value the contribution our employees and Appointed Representatives make to the communities we serve. The Group provides support to charities and projects that make a direct contribution to the communities we serve.

### ***Health & Safety***

The Health and Safety department has been working to spread knowledge and awareness throughout the Group that healthy and safe working conditions and practices are vital to achieving business excellence and will, in their observance, improve productivity. The department has worked through the Health and Safety at Work Act 1974, setting up all of the Group's procedures so that the Group conducts its business in a way that presents no risk of injury or ill health to its employees, suppliers, visitors or customers. All aspects of health and safety, including Fire regulations, First Aid, Manual handling, Company equipment and Buildings, have been taken into account, and the relevant training and guidance has been provided.

# **STANDARD FINANCIAL GROUP PLC**

## **GOVERNANCE**

**FOR THE YEAR ENDED 31 March 2012**

### **Key elements of the Group's system of internal controls**

#### ***Risk Management***

The Board is responsible for the Group's risk management and for reviewing the processes for identifying, mitigating and avoiding risk. It is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board's monitoring covers all controls, including financial, operational and compliance controls. It considers whether significant risks are identified, evaluated, managed and controlled and the action proposed where any significant weaknesses are identified. The Risk Committee assists the Board in discharging its review responsibilities.

#### ***Control environment***

The Group's Board believes it has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives. Overall business objectives are set by the Board and communicated through the organisation. Lines of responsibility and delegations of authority are documented.

#### ***Compliance Control procedures***

The Group has implemented compliance control procedures designed to ensure complete and accurate accounting for, and explanation of, financial advice and transactions. This limits the potential exposure to loss via bad advice or fraud. Measures taken include reviews of KPIs, segregation of duties, reviews by management, quality control and external audit, to the extent necessary to arrive at their audit opinion.

A process of control self-assessment and hierarchical reporting has been established which provides for a documented and auditable trail of accountability. These procedures are relevant across Group operations and provide for successive assurances to be given to the Board. Planned corrective actions are monitored for timely completion.

#### ***Monitoring and corrective action***

There are clear and consistent procedures in place for monitoring the system of internal financial and non-financial controls. The Audit Committee meets at least once a year and, within its remit, reviews the effectiveness of the Group's system of financial reporting and internal control policies. The Committee receives reports from external audit and management.

Non-financial compliance controls are reviewed regularly by executive management who report any issues and corrective actions directly to the Board director in charge of their area.

# **STANDARD FINANCIAL GROUP PLC**

## **GOVERNANCE**

**FOR THE YEAR ENDED 31 March 2012**

### **Directors' Remuneration Report**

The Nomination and Remuneration Committee has a membership of the Non-executive Chairman, Ian McCallum, the Non-executive director George Hayter and the Chief Executive, Charlie Palmer

The committee is responsible for ensuring that the Group's vision and strategy is supported by its remuneration policies and practices. It seeks to perform its role consistently within the Group's stated core values, which include the motto of Humility, Integrity and Discipline

The main work of this committee includes of the following discussions

- Board positions including nomination of new directors
- Job descriptions for the Board
- Directors' insurance
- Executive directors' performance
- Directors' remuneration
- Compliance with FSA's Remuneration Code

The process used in relation to Board appointments and remuneration does not generally involve external consultants although independent advice has been taken in the past. All positions are discussed first. A detailed job description and salary banding is then designed, the position is advertised and suitable applicants are interviewed. Final decisions are made by agreement with the entire Board, following the recommendation of the committee

In assessing all aspects of pay and benefits, the committee compares packages offered by similar companies. These companies are chosen having regard to their size as measured by turnover and numbers of employees and their growth pattern. Also compared are the director salaries in relation to the remuneration of other senior employees within the Group including the other Executive Directors. The working of this policy is such that all Directors are remunerated within the same framework. They are trusted to act according to the Group principles of Honesty, Integrity and Discipline and rewarded accordingly

#### ***Policy on contracts of service***

All senior executives including Executive Directors have substantially similar contracts. There are no exceptional termination provisions for either senior executives or Executive Directors. Executive Directors have no formal termination date to their letters of appointment

The Group has insured its directors against legal action as a result of their actions on behalf of the Group

#### ***Material contracts with Directors***

There were no material contracts between the Group and the Directors

#### ***Policy on remuneration of other senior executives***

The directors determine the remuneration of all senior executives



# STANDARD FINANCIAL GROUP PLC

## FOR THE YEAR ENDED 31 March 2012

### Director profiles

The Directors served on the Board as shown below. The commencement dates of the director contracts are as follows:

*Charlie Llewellyn Palmer*

8th January 2003

Charlie founded the company, and is the Group's chief executive, he previously worked with Allied Dunbar as a financial adviser at the Cheltenham Branch from 1992 to 1997 – an experience he describes as numbing. He left to set up as a sole trader IFA from his home and in 2002 incorporated Financial Limited as the UK's first fee based Hybrid-Network for IFAs.

*Ian McCallum*

29th January 2009

Ian is Chairman of the Board of directors and joined in 2010. After Cambridge University he rose to Chief Executive of FTSE 350 company Critchley Plc, until its eventual sale for £140m in 2000 to Tyco. Since then he has helped as adviser and director, to establish from scratch the largest on-line prescription glasses business in the world, glassesdirect.co.uk

*George Hayter*

18<sup>th</sup> May 2011

George is a non executive director and was appointed to the Board in 2011. George began his career as an electronic engineer and progressed to be the managing director for Trading Markets at the London Stock Exchange, where he was responsible for the trading systems and the implementation of the 'big bang'. In 1990 he became an independent consultant with focus on helping small companies across Europe and the Far East. During this time he was involved in the setting up or improvement of many stock exchanges around the world.

*Steve Bell*

1st August 2008

Steve joined the company in 2006 and is the Group's compliance director. Steve operated at a high level with Abbey National and Barclays as branch manager and regional manager.

*Angela Evans*

3rd May 2010

Angela was a divisional director initially in Finance and later in Treasury for Chelsea Building Society, gaining a wealth of experience in the Financial Services industry. She was also a director of three subsidiaries including a second charge mortgage broker and an offshore captive insurance company. She is responsible for IT and Human Resources as well as the Finance function for the Group.

## **STANDARD FINANCIAL GROUP PLC**

### **FOR THE YEAR ENDED 31 March 2012**

*Brian Galvin*

28th September 2011

Brian is the Group's Sales and Development Director. Brian previously worked as Head of Intermediary Partnerships for Friends Provident (now Friends Life). A key aspect of Brian's previous role was to build strategic relationships with distribution groups to enable products and propositions to be advised upon and sold.

*Paivi Grigg*

2nd June 2009

After thirteen years in the consumer credit industry with GE Capital, Paivi moved on to be financial director for Burns Anderson for six years, completed the same role for Lighthouse Group for another six years and joined Financial in 2011 as Commercial Director and head of asset management which included fund management and private client work. She is now the Risk Director with responsibility to provide guidance to the Board on risk management.

# **STANDARD FINANCIAL GROUP PLC**

## **FOR THE YEAR ENDED 31 March 2012**

### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable IFRS as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

# **Nexia Smith & Williamson**

## **Independent Auditors' Report to the Members of Standard Financial Group Plc for the year ended 31 March 2012**

We have audited the financial statements of Standard Financial Group Plc for the year ended 31 March 2012 which comprise the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Company Statement of Comprehensive Income, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Cash Flows and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and company's affairs as at 31 March 2012 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union,
- the company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

# Nexia Smith & Williamson

## Independent Auditors' Report to the Members of Standard Financial Group plc for the year ended 31 March 2012 (continued)

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Jonathan Talbot  
Senior Statutory Auditor, for and on behalf of  
**Nexia Smith & Williamson**  
Statutory Auditor  
Chartered Accountants

Portwall Place  
Portwall Lane  
Bristol  
BS1 6NA

Date *27 June 2012*

**STANDARD FINANCIAL GROUP PLC**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 March 2012**

	Notes	2012 £	2011 £
<b>Continuing Operations:</b>			
Revenue	2	26,672,340	25,641,589
Cost of sales		<u>(23,243,087)</u>	<u>(22,387,876)</u>
<b>GROSS PROFIT</b>		<b>3,429,253</b>	<b>3,253,713</b>
Administrative expenses		<u>(3,225,703)</u>	<u>(3,006,032)</u>
<b>OPERATING PROFIT</b>	3	<b>203,550</b>	<b>247,681</b>
Finance costs	6	(5,229)	(11,760)
FSCS charges		(93,556)	(110,466)
Other non-operating income		32,028	9,633
Other non operating expense		<u>(363)</u>	<u>-</u>
<b>PROFIT BEFORE TAX</b>		<b>136,430</b>	<b>135,088</b>
Taxation	8	<u>(28,052)</u>	<u>(25,480)</u>
<b>PROFIT FROM CONTINUING OPERATIONS</b>		<b>108,378</b>	<b>109,608</b>
<b>Discontinued operations:</b>			
Profit for the financial year from discontinued operations	7	-	432,953
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u><b>108,378</b></u>	<u><b>542,561</b></u>

**STANDARD FINANCIAL GROUP PLC**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 March 2012**

	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>108,378</b>	<b>542,561</b>
Other comprehensive income	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	<b>108,378</b>	<b>542,561</b>

**COMPANY STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 March 2012**

	<b>2012</b>	<b>2011</b>
	<b>£</b>	<b>£</b>
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>4,048</b>	<b>104,530</b>
Other comprehensive income	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	<b>4,048</b>	<b>104,530</b>

**STANDARD FINANCIAL GROUP PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 March 2012**

	Issued share capital	Retained earnings	Total equity
	£	£	£
Balance at 1 April 2011	526,900	678,198	1,205,098
Total comprehensive income for the year	-	108,378	108,378
Balance at 31 March 2012	<u>526,900</u>	<u>786,576</u>	<u>1,313,476</u>

	Issued share capital	Retained earnings	Total equity
	£	£	£
Balance at 1 April 2010	526,900	135,637	662,537
Total comprehensive income for the year	-	542,561	542,561
Balance at 31 March 2011	<u>526,900</u>	<u>678,198</u>	<u>1,205,098</u>

**COMPANY STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 March 2012**

	Issued share capital	Retained earnings	Total equity
	£	£	£
Balance at 1 April 2011	526,900	198,500	725,400
Total comprehensive income for the year	-	4,048	4,048
Balance at 31 March 2012	<u>526,900</u>	<u>202,548</u>	<u>729,448</u>

	Issued share capital	Retained earnings	Total equity
	£	£	£
Balance at 1 April 2010	526,900	93,970	620,870
Total comprehensive income for the year	-	104,530	104,530
Balance at 31 March 2011	<u>526,900</u>	<u>198,500</u>	<u>725,400</u>



# STANDARD FINANCIAL GROUP PLC

## CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 March 2012

	Note	Group 2012	2011	Company 2012	Restated 2011
		£	£	£	£
<b>ASSETS</b>					
<b>Non-current assets</b>					
Plant and equipment	9	93,787	127,237	-	-
Goodwill	10	223,080	223,080	-	-
Other intangible assets	11	5,899	8,258	-	-
Investments in subsidiaries	12	-	-	409,510	409,510
Other receivables	15	-	-	199,451	301,778
		<u>322,766</u>	<u>358,575</u>	<u>608,961</u>	<u>711,288</u>
<b>Current assets</b>					
Trade and other receivables	15	5,060,072	3,619,389	202,327	198,321
Cash and cash equivalents	16	1,405,202	1,115,316	70	18,820
		<u>6,465,274</u>	<u>4,734,705</u>	<u>202,397</u>	<u>217,141</u>
<b>TOTAL ASSETS</b>		<u>6,788,040</u>	<u>5,093,280</u>	<u>811,358</u>	<u>928,429</u>
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
<b>Equity attributable to owners of the company</b>					
Issued share capital	17	526,900	526,900	526,900	526,900
Retained earnings		786,576	678,198	202,548	198,500
<b>TOTAL EQUITY</b>		<u>1,313,476</u>	<u>1,205,098</u>	<u>729,448</u>	<u>725,400</u>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Deferred tax liability	19	553	2,213	-	-
<b>Current liabilities</b>					
Other payables	20	770,442	470,222	80,902	203,029
Current tax liability		46,722	41,517	1,008	-
Borrowings	16	6,839	-	-	-
Provisions	21	4,650,008	3,374,230	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<u>5,474,011</u>	<u>3,885,969</u>	<u>81,910</u>	<u>203,029</u>
<b>TOTAL LIABILITIES</b>		<u>5,474,564</u>	<u>3,888,182</u>	<u>81,910</u>	<u>203,029</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>6,788,040</u>	<u>5,093,280</u>	<u>811,358</u>	<u>928,429</u>

Approved by the Board on  
and signed on its behalf by

27 June 2012

*C A Llewellyn Palmer*

C A LLEWELLEN PALMER - DIRECTOR  
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# STANDARD FINANCIAL GROUP PLC

## CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 March 2012

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating profit/(loss)	203,550	247,681	(8,543)	101,789
<b>ADJUSTMENTS FOR:</b>				
FSCS charges paid	(93,556)	(110,466)	-	-
Depreciation	46,987	46,614	-	-
Amortisation	2,359	1,180	-	-
Loss on disposal of tangible fixed asset	363	1,182	-	-
Gain on discontinued operations	-	432,953	-	113,090
(Increase) /Decrease in trade and other receivables	(1,440,683)	(3,247,889)	98,321	(399,199)
Increase/ (Decrease) in other payables and provisions	1,575,998	3,032,607	(122,127)	200,329
<b>NET CASH FLOWS GENERATED FROM / (USED IN) OPERATING ACTIVITIES</b>	<b>295,018</b>	<b>403,862</b>	<b>(32,349)</b>	<b>16,009</b>
Tax paid	(24,870)	(21,893)	(579)	-
	<b>270,148</b>	<b>381,969</b>	<b>(32,928)</b>	<b>16,009</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments to acquire plant and equipment	(14,499)	(88,076)	-	-
Interest received	32,028	9,633	14,178	2,741
<b>NET CASH FLOWS GENERATED FROM / (USED) IN INVESTING ACTIVITIES</b>	<b>17,529</b>	<b>(78,443)</b>	<b>14,178</b>	<b>2,741</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from sale of investments	599	-	-	-
Interest paid	(5,229)	(11,760)	-	-
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(4,630)</b>	<b>(11,760)</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>283,047</b>	<b>291,766</b>	<b>(18,750)</b>	<b>18,750</b>
Cash and cash equivalents, including bank overdrafts, as at 1 April	1,115,316	823,550	18,820	70
<b>CASH AND CASH EQUIVALENTS, INCLUDING BANK OVERDRAFTS, AS AT 31 March</b>	<b>1,398,363</b>	<b>1,115,316</b>	<b>70</b>	<b>18,820</b>

# **STANDARD FINANCIAL GROUP PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 March 2012**

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#### **1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS**

The Group's financial statements for the year were authorised for issue on 27 June 2012 and the statement of financial position signed on the board's behalf by Mr C A Llewellyn Palmer. Standard Financial Group Plc is a public limited company incorporated and domiciled in England & Wales.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006. IFRS is subject to amendment and interpretation by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee and there is an ongoing process of review and endorsement by the European Commission. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 March 2012.

The principal accounting policies adopted by the Group are set out in note 2.

#### **2. ACCOUNTING POLICIES**

##### **Basis of preparation**

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

##### **Basis of consolidation**

The Group financial statements consolidate the accounts of Standard Financial Group Plc and all its subsidiary undertakings controlled by the Company, prepared to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiary undertakings acquired during the period are included in the consolidated income statement from the date of acquisition to the date of disposal. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

In accordance with Section 408 of the Companies Act 2006 Standard Financial Group Plc has taken advantage of the legal dispensation not to present its own income statement. The profit for the company for the year ended 31 March 2012 was £4,048 (2011 £104,530).

# **STANDARD FINANCIAL GROUP PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012**

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### **2. ACCOUNTING POLICIES (continued)**

#### **Business combinations and goodwill**

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

#### **Investments in subsidiaries**

In the company's accounts investments in subsidiary undertakings are stated at cost less any provision for impairment.

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

Investments are classified as 'available-for-sale' and are initially recognised at fair value and are measured at subsequent reporting dates at fair value, the gains and losses arising from changes in fair value are included in other comprehensive income. On disposal the cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated income statement for the period. If an available-for-sale investment is determined to be impaired, the cumulative loss previously recognised in other comprehensive income is included in the income statement for the period.

#### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. All such revenue is reported net of discounts and value added and other sales taxes. Revenue represents gross commissions and management fees receivable in respect of the period and it is recognised as they are earned on a monthly basis.

#### **Taxation**

The tax expense represents the sum of the tax currently payable and any deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

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### 2. ACCOUNTING POLICIES (continued)

#### Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

#### Plant and equipment

Plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, net of any residual value, using the straight line basis, on the following bases:

IT equipment	4 years
Fixtures and fittings	7 years

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

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### 2. ACCOUNTING POLICIES (continued)

#### Intangible assets

The internally generated software is capitalised based on the cost incurred in bringing the asset into use and to the extent of future anticipated income. Amortisation is charged to administrative expenses so as to write off the cost of asset over its estimated useful life, net of any residual value, using the straight line basis, on the following basis

Software	5 years
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#### Trade and other receivables

Trade and other receivables are recognised by the Group initially at fair value and subsequently measured at amortised cost using the effective interest method less an allowance for any uncollectible or impaired amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable and the provision is recognised in the income statement. Bad debts are written off to the income statement when they are identified.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short term deposits. Short term deposits are defined as deposits with an initial maturity of three months or less.

Bank overdrafts are repayable on demand and are included as a component of cash and cash equivalents for the purposes of the cash flow statement. Bank overdrafts are initially recorded at fair value and subsequently carried at amortised cost. Finance costs are accounted for on an accruals basis in the income statement using the effective interest rate method. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

#### Trade and other payables

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

#### Complaints and clawback provisions

The Group has an obligation to settle upheld complaints. Any complaint is recorded and assessed as to its validity and financial quantum. Complaints are assessed on the likelihood of redress being made and provided on this probability, save for the excess, which is recoverable from the adviser. Recoverability is assessed on an adviser by adviser basis and provision is made where necessary.

The Group provides for 2.5% of commissions earned. Any clawbacks are fully recoverable from the relevant Appointed Representatives of the company.

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

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### 2. ACCOUNTING POLICIES (continued)

#### **The Financial Service Compensation Scheme (FSCS) levy**

As a regulated Group, the Group pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims. The FSCS has or will meet the claims by way of loans received from HM Treasury and the Group provides for its share of the interest costs associated with the loans and for the management expenses of the scheme. A provision is recognised to the extent it can be reliably estimated for the obligation based on information from HM Treasury, forecasted future interest rates and the Group's share of industry protected deposits. The amounts provided do not take account of any compensation levies which may arise from any ultimate payout on claims.

#### **Employment benefits**

Provision is made in the financial statements for all employee benefits. Liabilities for wages and salaries, including non-monetary benefit and annual leave obliged to be settled within 12 months of the balance sheet date, are recognised in accruals.

The Group's contributions to defined contribution pension plans are charged to the income statement in the period to which the contributions relate.

#### **Leases**

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

#### **Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **Equity**

An equity instrument is a contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Equity comprises the following:

- "Issued share capital" represents amounts subscribed for shares at nominal value
- "Retained earnings" represents the accumulated profits and losses attributable to equity holders

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

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### 2. ACCOUNTING POLICIES (continued)

#### **Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the year end date and the reported amounts of revenues and expenses during the reporting period

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

#### *Critical accounting judgements*

The directors do not believe the company has any critical accounting judgements in producing these financial statements

#### *Key sources of estimation uncertainty*

The directors consider the following to be key sources of estimation uncertainty

- Measurement of the recoverable amount of trade receivables

A provision for impairment of trade receivables is established when there is no objective evidence that the company will be able to collect all amounts due according to the original terms. The company considers factors such as default or delinquency in payment, significant financial difficulties of the receivable and the probability that the receivable will enter bankruptcy in deciding whether the trade receivable is impaired

- Measurement of complaints provision

The Directors have applied their knowledge and experience of the industry in determining the level and rates of provisioning required. In the assessment of provisions, the Directors consider the recoverability of redress from the advising firm and apply an overall estimate based on past experience

- Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 10)

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



# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 2. ACCOUNTING POLICIES (continued)

**Standards, amendments and interpretations to existing standards that are not yet effective or have not been early adopted by the Group**

At the date of authorisation of these consolidated financial statements, the IASB and IFRS Interpretations Committee have issued standards, interpretations and amendments which are applicable to the company. Whilst these standards, interpretations and amendments are not effective for, and have not been applied in the preparation of, these consolidated financial statements, the following may have a material impact going forward

Standard	Amendment	Effective Date	Adopted by EU	Impact
IFRS 7 (Amended)	Financial Instruments Disclosure	1 July 2012	Not yet	Disclosure only
IFRS 9	Financial instruments	1 January 2013	Not yet	No material impact
IFRS 10	Consolidated Financial Statements	1 January 2013	Not yet	Provides a single consolidation model with control being the basis for consolidation
IFRS 11	Joint Arrangements	1 January 2013	Not yet	Establishes the principles for financial reporting by parties to a joint venture
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013	Not yet	Disclosure only
IFRS 13	Fair Value Measurement	1 January 2013	Not yet	Defines fair value and sets out a single framework for measuring fair value
IFRIC 14	For jurisdictions which have minimum funding requirements for defined benefit pensions	1 January 2012	Yes	No material impact
IFRIC 19	Extinguishing liabilities with equity instruments equity issued in exchange for extinguishing debt should be recorded at fair value	1 July 2011	Yes	Future exchange of financial liabilities for equity

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 3. OPERATING PROFIT

Operating profit is stated after charging

	2012 £	2011 £
Cost of commissions recognised as an expense	<u>22,846,827</u>	<u>22,387,876</u>
Depreciation of property, plant and equipment - owned	<u>46,987</u>	<u>46,614</u>
Operating lease rentals	<u>95,613</u>	<u>98,003</u>
Auditors' remuneration		
• Fees payable to the company's auditors for the audit of the company's financial statements	3,500	4,500
• Fees payable to the company's auditor and their associates for other services to the group		
- audit of subsidiaries	30,000	30,330
- taxation	<u>6,435</u>	<u>5,672</u>

### 4. EMPLOYEE EXPENSES

	2012 £	2011 £
Wages and salaries	1,625,580	1,416,229
Pension contributions	5,284	3,720
Social security costs	<u>177,969</u>	<u>150,395</u>
	<u>1,808,833</u>	<u>1,570,344</u>

The average monthly number of employees, including directors, during the year was made up as follows

	2012 No.	2011 No.
Average number of employees	41	43

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 5. DIRECTORS' EMOLUMENTS

	2012 £	2011 £
Emoluments	<u>487,024</u>	<u>465,562</u>
Pension contributions	<u>5,284</u>	<u>3,720</u>
Highest paid director		
Emoluments	<u>100,000</u>	<u>107,934</u>

#### Remuneration of key management personnel

The basis for the remuneration of the directors, who are the key management personnel, is shown on the directors' remuneration report and referred to in note 14

### 6. FINANCE COSTS

	2012 £	2011 £
Interest expense Bank overdraft	-	5,688
Bank charges	<u>5,229</u>	<u>6,072</u>
	<u>5,229</u>	<u>11,760</u>

### 7. DISCONTINUED OPERATIONS

	2012 £	2011 £
Revenue	-	201,250
Expenses	-	(178,993)
<b>Profit before tax</b>	-	22,257
Taxation	-	(4,512)
Gain on disposal of discontinued operations	-	415,208
	<u>-</u>	<u>432,953</u>

In February 2011 the Company disposed of Financial Private Clients Limited for consideration of £450,000 as this was no longer considered to be part of the core business of the Group

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 8. TAXATION

	2012 £	2011 £
<b>Current</b>		
UK Corporation tax	34,865	28,510
Adjustments in respect of prior periods	(8,473)	(3,030)
Total current tax	26,392	25,480
<b>Deferred tax</b>	1,660	-
Tax charge on profit on ordinary activities	28,052	25,480

#### Factors affecting tax charge for the period

Tax has been calculated using an estimated annual effective tax rate of 21% (2011 19%), which is lower than the standard rate of corporation tax in the UK. The differences are explained below

	2012 £	2011 £
Profit on ordinary activities before tax	136,430	135,088
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.3% (2011 21%)	26,330	28,368
Tax effect of expenses not deductible in determining taxable profit	3,981	142
Depreciation in excess of capital allowances	6,214	-
Adjustment in respect of prior periods	(8,473)	(3,030)
	28,052	25,480

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 9. PLANT AND EQUIPMENT – GROUP

	Fixtures and fittings £	IT equipment £	Total £
<b>Cost</b>			
At 1 April 2011	170,607	131,772	302,379
Additions	6,341	8,158	14,499
Disposals	(3,050)	-	(3,050)
At 31 March 2012	<u>173,898</u>	<u>139,930</u>	<u>313,828</u>
<b>Depreciation</b>			
At 1 April 2011	(76,083)	(99,059)	(175,142)
Charge for year	(21,589)	(25,398)	(46,987)
Disposals	2,088	-	2,088
At 31 March 2012	<u>(95,584)</u>	<u>(124,457)</u>	<u>(220,041)</u>
<b>Net book value</b>			
At 1 April 2011	<u>94,524</u>	<u>32,713</u>	<u>127,237</u>
At 31 March 2012	<u>78,314</u>	<u>15,473</u>	<u>93,787</u>

	Fixtures and fittings £	IT equipment £	Total £
<b>Cost</b>			
At 1 April 2010	93,263	158,050	251,313
Additions	77,344	10,732	88,076
Disposals	-	(37,010)	(37,010)
At 31 March 2011	<u>170,607</u>	<u>131,772</u>	<u>302,379</u>
<b>Depreciation</b>			
At 1 April 2010	(55,884)	(108,472)	(164,356)
Charge for year	(20,199)	(26,415)	(46,614)
Disposals	-	35,828	35,828
At 31 March 2011	<u>(76,083)</u>	<u>(99,059)</u>	<u>(175,142)</u>
<b>Net book value</b>			
At 1 April 2010	<u>37,379</u>	<u>49,578</u>	<u>86,957</u>
At 31 March 2011	<u>94,524</u>	<u>32,713</u>	<u>127,237</u>

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 10. GOODWILL – GROUP

	2012 £	2011 £
At 1 April 2011		
Cost	523,080	523,080
Accumulated impairment	(300,000)	(300,000)
Net carrying value	<u>223,080</u>	<u>223,080</u>
At 31 March 2012		
Cost	523,080	523,080
Accumulated impairment	(300,000)	(300,000)
Net carrying value	<u>223,080</u>	<u>223,080</u>

Goodwill is allocated to the group's one cash-generating unit (CGU). The recoverable amount is based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five-year period are extrapolated using the average long term growth rate. Gross margins and profitability consistent with prior years are assumed going forward along with a pre-tax discount rate of 8% (2011: 8%) consistent with the market rate at which the group can secure external borrowings. There was no impairment of goodwill for the year ended 31 March 2012 (2011: £nil).

### 11. OTHER INTANGIBLE ASSETS - GROUP

	2012 £	2011 £
Software		
At 1 April	9,438	-
Additions	-	9,438
At 31 March	<u>9,438</u>	<u>9,438</u>
Amortisation		
At 1 April	(1,180)	-
Charge for year	(2,359)	(1,180)
At 31 March	<u>(3,539)</u>	<u>(1,180)</u>
Net book value		
At 31 March	<u>5,899</u>	<u>8,258</u>

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 12 INVESTMENTS

	2012 £	2011 £
<b>Company</b>		
Investments in subsidiaries	409,510	522,600
Disposal	-	(81,000)
Impairment	-	(32,090)
	<u>409,510</u>	<u>409,510</u>

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid. The impairment relates to the cessation of trading in 2011 of Financial Protection Network Limited resulting in the impairment of £32,090.

The disposal relates to the sale of Financial Private Clients Limited in 2011. Details of the disposal are detailed in note 8.

Details of the investments in which the group and company holds 20% or more of the nominal value of any class of share capital are as follows:

Details of Group companies	Class of Shares	Holding	Registered	Nature of Business
Financial Limited	£1 Ordinary	100%	England and Wales	IFA Network
IFA Compliance Limited	£1 Ordinary	100%	England and Wales	Compliance advice
Dominico Limited	£1 Ordinary	100%	England and Wales	Dormant
Investments Limited	£1 Ordinary	100%	England and Wales	IFA Network
Financial Protection Network Limited	£1 Ordinary	100%	England and Wales	Dormant

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

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### 13. FINANCIAL INSTRUMENTS

The group's financial instruments comprise of cash and cash equivalents and items such as trade payables and trade receivables which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the group's operations.

The group's operations expose it to a variety of financial risks including market, credit, interest rate and liquidity risks. The management of these risks is vested in the Board of Directors.

#### *Market risk*

The most significant area of market risk to which the group is exposed is interest rate risk. The directors do not believe they have a material exposure to price risk.

#### *Interest rate risk*

The principal impact to the group is the result of interest-bearing cash and cash equivalent balances, including bank overdrafts, held as set out below.

	Floating rate 2012 £	Floating rate 2011 £
Cash and cash equivalents, net of overdrafts	1,398,363	1,115,316
	<hr/>	<hr/>

The directors do not consider that a reasonable movement in interest rates would have a material impact on the financial statements as at 31 March 2012 and 31 March 2011.



# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 13. FINANCIAL INSTRUMENTS (continued)

#### *Credit risk*

The group's credit risk is primarily attributable to its trade receivables and cash and cash equivalents. The group has implemented policies that require appropriate credit checks on customers and counterparties.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2012 £	2011 £
Loans and receivables as defined by IAS39		
- Trade receivables	730,837	872,201
- Other receivables	4,063,400	2,625,298
- Cash and cash equivalents, net of overdrafts	1,398,363	1,115,316
<b>Maximum exposure to credit risk</b>	<b>6,192,600</b>	<b>4,612,815</b>

#### *Liquidity risk*

The Group seeks to manage liquidity risk to ensure that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Company deems there is sufficient liquidity for the foreseeable future.

Trading liabilities have not been analysed by contractual maturity because trading assets and liabilities are typically held for short periods of time.

The group had cash and cash equivalents, net of bank overdrafts at 31 March 2012 as set out below:

	2012 £	2011 £
Cash and cash equivalents, net of overdrafts	1,398,363	1,115,316

#### *Capital risk management*

Details of the group's regulatory capital and related risk management objectives and policies are provided in the Directors' Report.

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 14. RELATED PARTY TRANSACTIONS

#### Group accounts and subsidiaries

The consolidated financial statements include the financial statements of Standard Financial Group plc and the subsidiaries listed in note 12

#### Inter-company transactions

During the year Standard Financial Group Plc entered into the following transactions, or had closing balances, with the following companies related by virtue of being in the same Group

	Transactions	Narrative	Closing receivable/ (payable)
Company	£		£
Financial Limited	122,127	Inter-company balance	(80,772)
Dominico Limited	-	Inter-company balance	(100)
IFA Compliance Limited	-	Inter-company balance	100,000

Comparatives for the year ended 31 March 2011 were as follows

	Transactions	Narrative	Closing receivable/ (payable)
Company	£		£
Financial Limited	-	Inter-company balance	(202,899)
Dominico Limited	-	Inter-company balance	(100)
IFA Compliance Limited	-	Inter-company balance	100,000

The disposal of Financial Private Clients Limited was made to Richard Raby, a director of Financial Private Clients Limited in February 2011 for £450,000, further details regarding the transaction are included in note 7

#### Key management compensation

	2012	2011
	£	£
Wages and salaries	484,001	415,492
Money purchase pension contributions	3,407	3,720
Employers NI	57,789	50,066
	<u>545,197</u>	<u>469,278</u>

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	Restated 2011
	£	£	£	£
Trade receivables	730,837	872,201	-	-
Amounts owed by subsidiaries	-	-	100,000	100,000
Other receivables	4,063,400	2,625,298	102,327	98,321
Prepayments	265,835	121,890	-	-
	<u>5,060,072</u>	<u>3,619,389</u>	<u>202,327</u>	<u>198,321</u>
Non current - other receivables	-	-	199,451	301,778

Trade receivables constitute financial assets within the category "Loans and receivables" as defined by IAS 39

Non current assets relate to a loan provided on the sale of Financial Private Clients Ltd which is repaid over 4 years from February 2011

Amounts receivable from trade customers are non-interest bearing and are generally on 30 - 90 day terms. Due to their short maturities, the directors consider the fair value of trade receivables to approximate their carrying value. As at 31 March 2012, no trade or other receivables were either impaired (2011: £nil) or past due but not impaired (2011: £nil). The group believes that it has no significant concentration of credit risk as there are no customers who hold a significant element of the total balance of trade receivables.

A provision for impairment of trade or other receivables is established when there is no objective evidence that the group will be able to collect all amounts due according to the original terms. The group considers factors such as default or delinquency in payment, significant financial difficulties of the counterparties and the probability that the counterparty will enter bankruptcy in deciding whether the receivable is impaired.

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Cash at bank	1,005,202	875,316	70	18,820
Deposit held	400,000	240,000	-	-
	<u>1,405,202</u>	<u>1,115,316</u>	<u>70</u>	<u>18,820</u>
Bank overdrafts	(6,839)	-	-	-
	<u>1,398,363</u>	<u>1,115,316</u>	<u>70</u>	<u>18,820</u>

Cash and cash equivalents constitute financial assets within the category "Loans and receivables" as defined by IAS 39. For the purposes of the cash flow statement, cash and cash equivalents include bank overdrafts. The directors consider that the carrying amount of these assets approximates to their fair value. The credit risk on liquid assets is limited because the counter-party is a bank with a high credit rating.

### 17. ISSUED SHARE CAPITAL

	2012	2011
	£	£
Issued and fully paid		
526,900 ordinary shares of £1 each	<u>526,900</u>	<u>526,900</u>

### 18. CONTROLLING PARTY

Ultimate controlling party is C A Llewellyn Palmer, a director of the company.

### 19. DEFERRED TAX

	Balance sheet		Income statement	
	2012	2011	2012	2011
	£	£	£	£
Deferred tax liabilities				
Relating to depreciation	<u>(2,213)</u>	<u>(2,213)</u>	-	-

As at 31 March 2012, the group had £nil unrecognised deferred tax (2011: £nil).

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

### 20. OTHER PAYABLES

	Group		Company	
	2012	2011	2012	2011
	£	£	£	£
Other payables	468,753	270,436	-	-
Amounts owed to subsidiaries	-	-	80,772	202,899
Accrued liabilities	301,689	199,786	130	130
	<u>770,442</u>	<u>470,222</u>	<u>80,902</u>	<u>203,029</u>

Other payables constitute financial liabilities within the category "Amortised cost" as defined by IAS 39

The Directors consider that the carrying amount of other payables and accrued liabilities approximates to their fair value

### 21. PROVISIONS - GROUP

	Clawback of indemnity	Complaints	Total
	£	£	£
At 1 April 2011	168,982	3,205,248	3,374,230
(Released)/Charged to the income statement	(90,758)	1,480,283	1,389,525
Utilised during the year	-	(113,747)	(113,747)
<b>At 31 March 2012</b>	<u><b>78,224</b></u>	<u><b>4,571,784</b></u>	<u><b>4,650,008</b></u>

#### Provision for clawback of indemnity commission

The provision for clawback of indemnity commission represents the expected cost of clawbacks from product providers for subsequent policy cancellations and mid term adjustments in respect of policies written at 31 March 2012. The amount represents the gross obligation and, where these amounts can be recovered from network members a corresponding asset is recognised. At 31 March 2012, the amount recognised within trade and other receivables was £78,224 (2011 £168,982)

#### Complaints provision

The complaints provision represents the expected cost of settling claims from clients and the amount represents the gross obligation and where these amounts can be recovered from network members and insurers a corresponding asset is recognised. At 31 March 2012, the amount recognised within trade and other receivables was £4,044,596 (2011 £2,484,009)

# STANDARD FINANCIAL GROUP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 March 2012

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### 22. CONTINGENT LIABILITIES

The regulatory requirements governing the IFA network business receives significant attention within pensions transfer market. The company's compliance with these regulations is subject to a process of ongoing review and appraisal by both the directors and FSA.

The company has received notification regarding investments made with Keydata, investigations are underway but at this stage the unsuitability of advice and any potential redress remains uncertain.

The company provides for any costs arising from specific regulatory reviews as well as complaints from consumers, both received and anticipated, where these can be reliably and accurately estimated.

### 23. OPERATING LEASE COMMITMENTS – GROUP

At the year end date, the Group has lease agreements in respect of properties for which the payments extend over a number of years.

	2012 £'000	2011 £'000
Due:		
Within one year	47	98
Within two to five years	55	262
	<u>102</u>	<u>360</u>