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Stonebridge International Insurance Ltd

2017 Solvency Financial Condition Report

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Scope and Basis of Preparation

Scope

The Solvency II Pillar 3 regulatory reporting requirements came into force on 1 January 2016. Firms must produce two key reports:

- the **Solvency and Financial Condition Report (SFCR)** – Firms are required to disclose this report publicly and to report it to the Prudential Regulation Authority (PRA) on an annual basis. The SFCR includes both qualitative and quantitative information; and

- the **Regular Supervisory Report (RSR)** – This is a private report to the supervisor and is not disclosed publicly. Firms submit this report to the PRA in full at least every three years and in summary every year. The RSR includes both qualitative and quantitative information. Stonebridge International Insurance Ltd has opted to produce a full RSR for 2017.

This report is Stonebridge International Insurance Ltd's SFCR for the year ended December 31, 2017 and submitted in full during 2018.

During 2017, management continued to implement the new operating model following the transition of business services from Maidenhead to Edinburgh in 2016.

This report informs SIIL's stakeholders about:

A. Business and Performance
   This section gives an overview of the business, underwriting, investment and other activity performance over the year.
B. System of Governance
   This section gives general information on the system of governance, covering fit and proper persons requirements and the company's risk management system including the Own Risk and Solvency Assessment (ORSA). It also covers functions such as internal audit, actuarial and outsourcing arrangements.
C. Risk Profile
   This section covers all risk categories including underwriting, market, credit, liquidity and operational risk.
D. Valuation for Solvency Purposes
   This section explains the methodology differences between Statutory and Solvency II, and provides a reconciliation between the two, identifying classification and valuation differences.
E. Capital Management
   This section provides an analysis and explanation of own funds, solvency capital requirement and minimum capital requirement.

Included within the SFCR are quantitative reporting templates relating to Stonebridge International Insurance Ltd. These are included at the end of the report.

Basis of Preparation

This report is prepared in accordance with the requirements of the Solvency II Directive and Delegated Regulation (in particular article 256 of the Solvency II Directive, articles 359 – 371 and article 290-298 of the Delegated Regulation) and relevant EIOPA Guidelines (in particular 'Guidelines on reporting and public disclosure' - EIOPA-BoS-15/109) as issued by the European Insurance and Occupational Pensions Authority (EIOPA).

The 2017 SFCR of Stonebridge International Insurance Ltd has been prepared and disclosed under the responsibility of the Stonebridge International Insurance Ltd Board. The Company is required to ensure that its SFCR is subject to approval by its governing body and that governing body takes responsibility for ensuring that the SFCR has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations. This certification is included within section H of the report.

The monetary values in the SFCR are presented in pounds sterling and in thousands.

Where Statutory results are disclosed, the figures are prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Consolidated accounting and reporting requirements for entities in the UK and Republic of Ireland issuing insurance contracts ("FRS 103") and the Companies Act 2006.

Sections of this document are subject to external audit, this has been carried out by PwC, where sections D and E have been audited along with the quantitative reporting templates, except for S.05.01.02, S0.5.02.01 and S.19.01.21.

Summary

Introduction

Stonebridge International Insurance Ltd's principal activity is the transaction and servicing of accident and health related general insurance products in selected European markets. The Company is domiciled and incorporated in England. Throughout the document Stonebridge will be referred to as SIIL', 'Stonebridge' or the 'Company'.

The Company is a subsidiary of Aegon N.V. and is a part of the Aegon Group, one of the world's leading providers of life insurance, pensions and asset management.

Aegon Global facts and figures:

- Helping people to achieve a lifetime of financial security
- Global savings and investment provider serving 26 million customers in over 20 countries across Europe, Asia and the Americas
- Over 28,000 employees, with over 3,000 based in the UK
- Manages over £725 billion in assets on behalf of savers and investors worldwide
- Global brands are Aegon and Transamerica

The sections noted below give an overview of each of the sections within the SFCR and more fully in the individual sections.

A. Business and performance

Company overview

The Company's business strategy is focused on continuing to provide protection and benefits through its accident and health related general insurance products to its established customer base in selected European markets and ensure clear communication with its customers of the nature and benefits of their policies.

Strategic overview

The Directors are confident that the Company is well placed for the challenges and opportunities that continue to arise through regulatory and market changes, which includes the uncertainty of Brexit.

Overview of 2017 and key results

The business had circa 234,000 inforce policies at 31 December 2017 with policyholders residing in the UK, Ireland, France, Germany, Italy, Spain and the Nordic region. Where 63% of the gross written premium generated from the portfolio is denominated in non-sterling currencies.

The business continues to actively engage with customers and has now completed two annual cycles of customer communications. These are designed to ensure that customers are clear on the benefits of their policy, as well as ensuring that customers have the contact details for the Customer Service Centre to enable them to administer their policy, and, to make claims.

A summary of the key results is provided below:

	2017	2016	(Decrease)	
	£'m	£'m	**£'m**	**%**
Gross Written Premiums (GWP)	**27.9**	29.2	**(1.3)**	**(4.4%)**
Profit on ordinary activities before tax	**9.4**	10.0	**(0.6)**	**(6.0%)**
Solvency Ratio	**402%**	328%		

The reduction in gross written premiums of 4.4% is in line with expectations given no new business is currently being written. Following the completion of the transition from Maidenhead in 2016, management continue to deploy cost saving initiatives to ensure continued positive performance for the business. Management have provided £1,150k in the year as a provision for a historic product cancellation decision, where £153k is utilised leaving a provision of £997k at 31 December 2017. This provision is to allow for customers unfairly disadvantaged by this decision to be appropriately remediated in 2018.

B. System of Governance

Corporate governance
The Company is a wholly owned subsidiary of Cornerstone International Holdings Ltd. Cornerstone is ultimately owned by Aegon N.V. SIIL is the insurance company and does not employ any staff. SIIL's governance structure is in place to ensure the safe and efficient management of the Company, its operations and to protect the interest of its customers.

Under the SIIL Operating Board's authority the Company has the following governance structure

- Executive Committee
- Risk Committee
- Remuneration and Nomination Committee
- SII Model Committee

Oversight, including Board membership on behalf of Aegon N.V Group is provided through Aegon UK Corporate Services management oversight and processes. SIIL is committed to compliance with PRA and FCA rules and has implemented rigorous processes and procedures to ensure vetting and verification of individuals and maintenance of clear organisational accountabilities both for individual and group decisions.

Risk management
SIIL's Enterprise Risk Management (ERM) framework is aligned to the Aegon Group ERM framework. This framework is designed to identify and manage potential events and risks that may affect the Company. It involves:

- Understanding which risks SIIL is facing
- Establishing an enterprise-wide framework through which risk can be assessed
- Establishing risk tolerances for the level of exposure to a particular risk
- Utilising risk policies to set minimum standards to be met
- Monitoring risk exposure and actively maintaining oversight over SIIL's overall risk and solvency positions.

Control environment
In addition to risk management SIIL's Solvency II control environment consists of an internal control system, an actuarial function and an internal audit function. The internal control system serves to facilitate compliance with applicable laws, regulation and administrative processes and it provides for an adequate control environment including appropriate control activities for key processes. The actuarial function has end-to-end accountability for the adequacy and reliability of reported technical provisions, including policy setting and monitoring of compliance regarding actuarial risk tolerances. SIIL's internal audit function is independent and objective in performing its duties in evaluating the effectiveness of SIIL's internal control system.

Full details on SIIL's system of governance are described in Section B.

C. Risk Profile

Key risks

The nature of the SIIL business results in exposure to the following market related risks: Counterparty risk, Currency risk, Foreign Exchange risk and Liquidity risk. However, due to the nature of the products in force, the risk of externally market driven events is typically low. The main non-financial risks that the Company is exposed to relate to Underwriting risk, including lapses and claims, and Operational risk, including legal and compliance risks. SIIL is also exposed to broader strategic risk. Together these represent the principal risks and uncertainties for the Company.

SIIL manages risk by the setting of risk appetite, which articulates its risk objectives and associated limits for the key risks, and the subsequent monitoring of exposure in line with appetite.

Stress and scenario analysis is performed to test the overall financial strength of the business and the exposure to specified risk exposures. Sensitivities and scenario analysis is a core part of the risk framework in allowing the business to measure, monitor and manage risk exposures at any time.

Full details of the risk profile for SIIL can be found in full in Section C.

D. Valuation for solvency purposes

The valuation of assets and technical provisions for Solvency II purposes are derived predominantly from the same data and models as used in preparation of the Statutory Accounts, and a key internal process control is to reconcile from the audited Statutory Accounts to the valuation of assets and technical provisions for Solvency II reporting.

Full details on the reconciliation between SIIL's United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law balance sheet and its Solvency II balance sheet are described in Section D.

E. Capital management

Subject to specifications of the SII rules and regulations, the Own Funds are the assets of the Company less the liabilities. Under Solvency II, firms must hold regulatory capital, called the Solvency Capital Requirement (SCR) in addition to those liabilities in order to ensure that they will still be in a position, with a probability of at least 99.5 %, to meet their obligations to policyholders and beneficiaries over the following 12 months. The minimum level and composition of an insurer's Own Funds is determined by reference to its SCR.

SIIL applies the standard formula in its calculation of the SCR.

Solvency II key figures £000's	31 December **2017**	31 December 2016
Own Funds	**42,173**	34,653
Net SCR	**10,496**	10,575
Solvency Ratio	402%	328%

Solvency II key figures	31 December	31 December
£000's	**2017**	2016
Eligible Own Funds	**41,963**	34,451
MCR	**3,142**	3,141

The Eligible Own Funds consisted of £41,963k (2016: £34,451k) of unrestricted Tier 1 and excludes £210k (2016: £202k) of Tier 3, related to deferred tax assets.

The solvency ratio (Own Funds/Solvency Capital Requirement) is a key performance indicator for SIIL.

A. Business and Performance

A.1 Business

A.1.1 Overview

SIIL's principal activity is the transaction and servicing of accident and health related general insurance products in selected European markets. The company is domiciled and incorporated in England.

The Company is the underwriter, it has no employees, and during the period staff were provided by Aegon UK Corporate Services Limited, following the implementation of the business strategy to simplify its' target operating model following the transition of services from Maidenhead to Edinburgh. The final remaining Branch in Germany was closed in 2017. In September 2017 the Company's sister company Aegon Direct Marketing Services Europe Ltd (ADMSEL) was placed into voluntary liquidation.

Significant developments in the SIIL business over 2017:

1. Operations transition from Maidenhead to Aegon UK based in Edinburgh finalised.

The final projects which concluded the move from the previous base in Maidenhead to the new base in Edinburgh were completed. This consisted of a series of IT changes and some final efficiency savings resulting from process changes. In addition the Shared Service provisions are now operating as business as usual with a significant benefit delivered through the use of the Aegon UK (AUK) Risk Framework. As a result, SIIL's internal risk reporting and tracking has improved and SIIL have a much clearer understanding of risk at all levels of the business.

2. Annual communications have continued

A commitment was made that SIIL would mail customers annually to provide them with relevant information. SIIL completed this for the first time in March 2017 where c.260k customers were mailed across Europe in the first exercise of its kind for SIIL.
Between May and November 2017 the second cycle of annual communications was completed, ensuring that all customers are fully aware of the policy they have and its' associated benefits.

3. Dividends

No dividend was paid during 2017. Management have deferred any decision to pay future dividends until the outcome of the decision to exit the European Union is known and fully understood.

A.1.2 Key Contact and Business Addresses

The authority responsible for regulatory supervision of Stonebridge International Insurance Ltd is:

- Prudential Regulation Authority (or PRA)
  Address : 20 Moorgate, London, EC2 6DA
  Telephone : +44 (0)20 7601 4444

- Financial Conduct Authority (or FCA)
  Address : 25 North Colonnade, London, E14 5HS
  Telephone : +44 (0)20 7066 1000

PricewaterhouseCoopers LLP is the external auditor of Stonebridge International Insurance Ltd who can be contacted as follows:

Address	: Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
Telephone	: +44 (0)131 226 4488

A.1.3 Solvency II key figures

In the following table the Solvency II figures for SIIL are presented:

Table 1 Solvency II key figures of SIIL per 31 December 2017 and 31 December 2016

Solvency II key figures

Amount in £000's	31 December 2017	31 December 2016
Own Funds	**42,173**	34,653
Net SCR	**10,496**	10,575
Surplus (deficit)	**31,677**	24,078
Solvency II Ratio	**402%**	328%

The Solvency II ratio of 402% is based on the Solvency Capital Ratio (SCR) calculated using the Solvency II Standard Formula. The composition of SIIL Own Funds and the SCR are discussed in section E.2 and section E.3 respectively.

A.1.4 Stonebridge's strategy

The core strategic statements driving the business are:

- SIIL will monitor Brexit developments closely and be ready to respond accordingly

As a result of the UK Government triggering Article 50 (Brexit) there is now a period of uncertainty as the European Union (EU) and Great Britain negotiate a settlement and potential trade deal in advance of March 2019.

Management are comfortable that there is sufficient capital and liquidity to maintain operations throughout the period and operate as a going concern and to implement any specific action required to respond to political developments as they arise through 2018. There is dedicated resource and management attention to ensure that the appropriate mitigation strategies are deployed to ensure where possible the best outcomes for customers, maintaining regulatory compliance and protecting the shareholder.

- SIIL will seek to conduct business safely and keep conduct risk low

A core objective is to look after customers. SIIL will do this by means of strong relationships with CCA International and Gielisch (as key outsourcers to the business), monitoring and managing the products to ensure good customer outcomes, ensuring an embedded risk framework and maintain a strong risk culture.

- Continue to suspend new sales

SIIL entered into a Voluntary Variation of Permissions (VVOP) in December 2012 which limited SIIL's rights to continue with selling new business. SIIL has no immediate plans to restart new sales.

- Dividend stream to be determined in line with the Capital Management Policy.

No dividend was paid in 2017 and management are deferring the decision to propose a dividend until the outcome of the Brexit decision is known.

The position of SIIL is currently well capitalised and with strong liquidity generation, this continues through the planning period and a clear capital management policy is in place to maintain this.

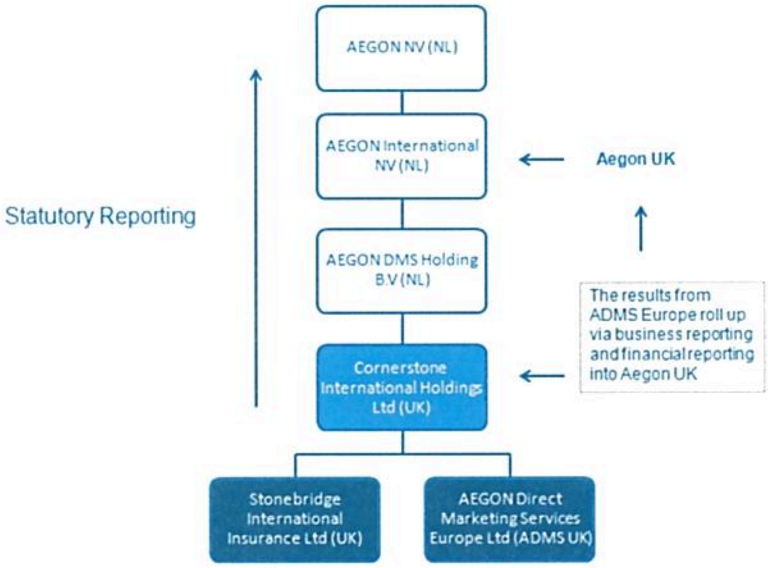
- SIIL will continue to control costs

SIIL recognises that it cannot maintain policies on a long term loss making position and SIIL regularly reviews and manages its operational costs to ensure that these are kept under control.

SIIL recognises it cannot outsource its regulatory responsibilities and remains liable for the fair treatment of customers and to ensure that FCA principles and consumer outcomes are honoured. To achieve this oversight, monitoring and reporting of these Outsource Service Providers (OSPs) is given the highest priority.

A.1.5 Stonebridge's group structure

The largest group in which the results of the Company are consolidated is that headed by Aegon N.V., a company incorporated in The Netherlands. Copies of the consolidated financial statements of Aegon N.V. are available to the public and may be obtained from The Company Secretary, Aegon UK plc, Aegon Lochside Crescent, Edinburgh Park, Edinburgh, EH12 9SE.



Note - Aegon Direct Marketing Services Europe Ltd is currently in liquidation

** Aegon Direct Marketing Europe Ltd (ADMSEL) is no longer authorised by the FCA to provide regulated products and services. Cornerstone International Holdings Ltd is a holding company that owns the shares of SIIL and ADMSEL. It is not a regulated entity and employs no staff. Results are rolled up into Aegon UK Group Reporting to Aegon N.V.*

A.1.6 List of Principal subsidiaries, Joint Ventures and associates

SIIL has no subsidiaries or joint ventures.

A.1.7 Material lines of business and Material lines of geographical areas.

Material lines of business

Historically SIIL sold a range of protection products including Accidental Death, Hospital Cash Plan, Accident Cash Plan, Dental cover, Drivers Protection and protection business. SIIL sold most of their policies by telesales using customer databases supplied by business partners (usually banks, credit card companies and retailers) and there were a limited number of direct mail campaigns and some use of appointed representatives. SIIL does not currently write new business.

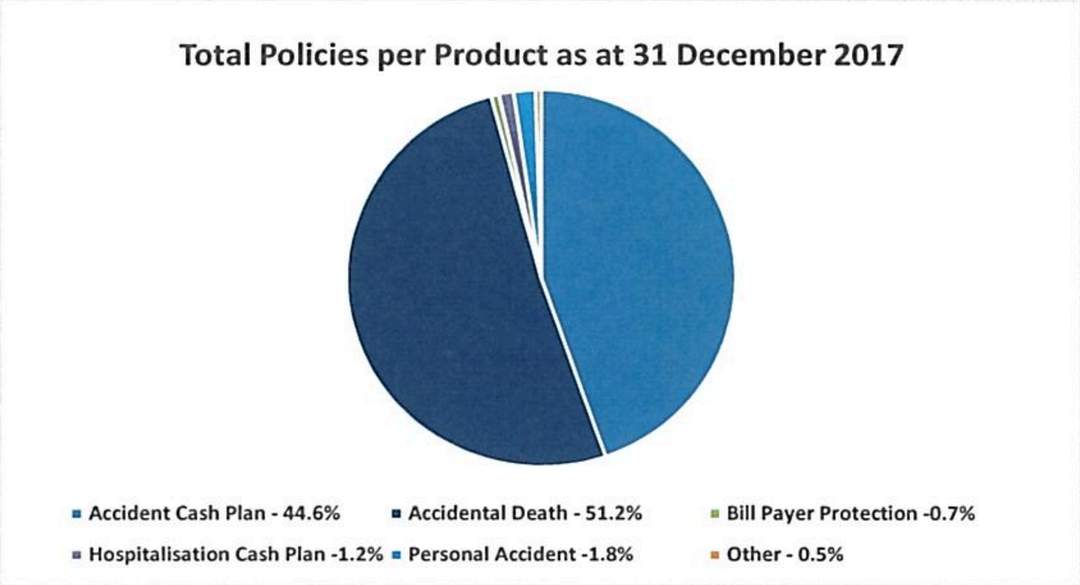
The vast majority of the business is Accidental Death and Accident Cash Plan, these policies have the following features:

Accidental Death

- Monthly renewable. Premiums payable monthly
- Payment of Cash Benefit if insured person suffers accidental death that happens anywhere in the world. For insured adults, the amount payable is dependent on the type of accident. Death must occur within 12 months of accident. Exclusions and limitations apply.

Accidental Cash Plan

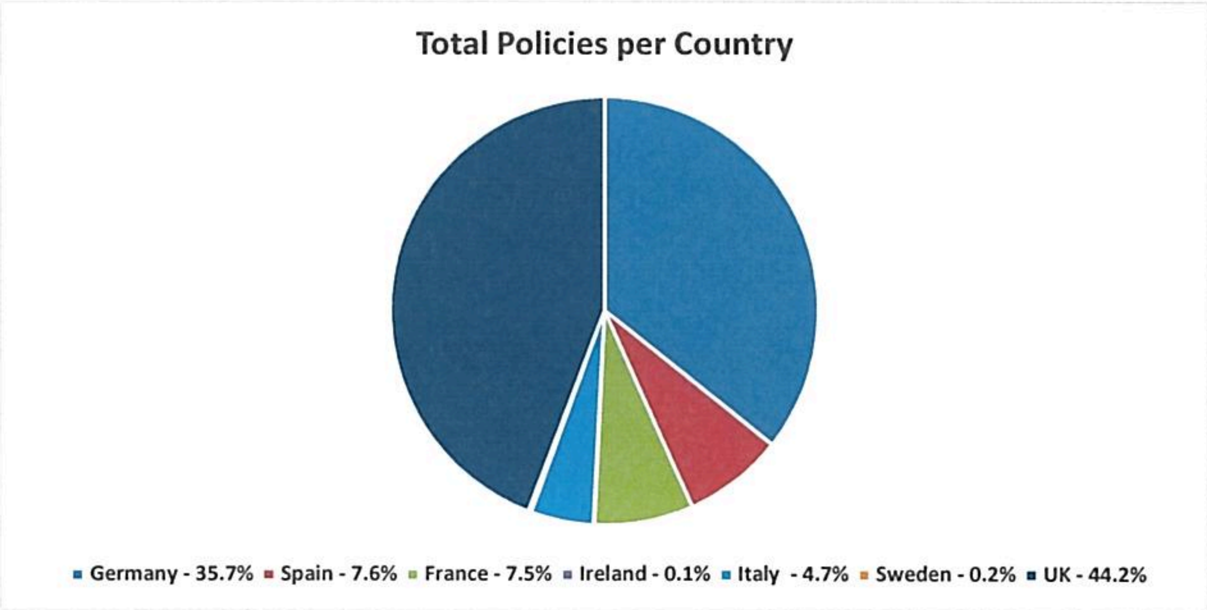
- Monthly renewable. Premiums payable monthly
- Pays out a daily benefit in the event of hospitalisation as direct result of an accident. Broadly payout is based on the number of days hospitalised. Exclusions and limitations apply.



Within SIIL's 234,000 policies, where classifications are less than 1,000 policies per type these have been classified as "Other".

Geographical Markets

The geographical splits are noted in the pie chart below which outlines the number of policies per country as at 31 December 2017:



A.1.8 Major Shareholders

The only shareholder in SIIL is Cornerstone International Holdings Ltd. This is ultimately owned 100% by Aegon International N.V.

A.2 Underwriting Performance

This section provides a high level overview of the underwriting performance of SIIL.

Table 2 Underwriting performance of SIIL (Statutory basis)

Statutory Results £ 000's	2017	2017	2016	2016
Net Written Premium	**27,880**		29,242	
Provision for Unearned Premiums	**98**		1,137	
Earned Premiums		**27,978**		30,379
Net Claims Paid	**(8,165)**		(6,082)	
Change in Claims Provision	**(612)**		(1,254)	
Claims Incurred		**(8,777)**		(7,336)
Expenses*		**(10,118)**		(13,193)
Other Income		**271**		4
Investment Income		**69**		149
Net Income		**9,423**		**10,003**

**Investment expenses included 2017 £21k (2016: £1k)*

The above table shows a strong result but it should be noted that the SIIL book which is not writing new business is impacted by a natural level of lapsed policies through the year which reduces the premium levels. There has been an increase in Net Claims paid overall aligned to the impact of the improved communications and past product review where additional benefits were granted to customers. The movement in the provision for unearned premiums is the result of the change from annual to monthly policies for Spain. Overall these movements are aligned to management expectations for the business.

In regard to expenses the conclusion of the transition of moving operations from Maidenhead to Edinburgh realised significant cost savings as the new operating model is now fully embedded.

Also, included within expenses is a £1,150k provision for a for a historic product cancellation decision. This provision is to allow for customers unfairly disadvantaged by this decision to be appropriately remediated in 2018, direct mailing to affected customers has been completed.

SIIL's products are categorised under income protection insurance for reporting purposes and this is the only line of business that SIIL has exposure to. The products that are in force span a number of countries, these are; UK, Germany, France, Spain, Italy, Ireland, Denmark, Sweden, Norway and Finland. Net margin is not analysed at a product level.

Table 3 Underwriting performance of SIIL with a geographical split

Statutory Results £ 000's	2017 Premiums Earned	2017 Claims Incurred	2017 Operating Expenses	2016 Premiums Earned	2016 Claims Incurred	2016 Operating Expenses
United Kingdom	**10,299**	**4,311**	**7,635**	11,557	1,556	13,206
Germany	**9,966**	**3,474**	**278**	10,124	3,333	(1,612)
France	**2,952**	**(55)**	**412**	3,290	976	315
Spain	**2,196**	**656**	**577**	2,567	527	587
Other Countries/Expenses	**2,565**	**391**	**1,216**	2,841	944	697
Total	**27,978**	**8,777**	**10,118**	**30,379**	**7,336**	**13,193**

A.3 Investment Performance

This section provides a high level overview of the investment performance of SIIL.

Table 4 Investment performance of SIIL

Statutory Results £ 000's	2017	2016
Investment Income	**69**	149
Other Income	**271**	4
Investment expenses	**(21)**	(1)
Total	**319**	152

The nature of the products that SIIL carries means that there is limited shareholder or policyholder investment risk. During the period a loan was issued to an Aegon company, and repaid, as a result interest income was earned in 2017. Other than the intercompany loan issued and repaid noted in the period surplus assets are in cash which is low risk and produces a low return.

A.4 Performance of other activities

Please note there are no performance of other activities regarding SIIL business.

A.5 Any other information

Please note there is no other material information regarding SIIL business and performance.

B. System of Governance

B.1 General Information on the system of governance

B.1.1 SIIL's corporate governance

The Company has established a governance framework for monitoring and overseeing strategy, conduct of business standards and operations of the business.

SIIL is a wholly owned subsidiary of Cornerstone International Holdings Ltd. Cornerstone is ultimately wholly owned by Aegon N.V.. SIIL is the insurance/underwriter and employs no staff. Under the SIIL Operating Board's authority the Company operates the following further governance structure: Executive Committee; Risk Committee; Remuneration and Nomination Committee; Oversight, including Board membership, on behalf of Aegon N.V. Group is provided through Aegon UK management oversight and processes.

Staff from other Aegon UK entities have been appointed to SIIL Boards and Committees as "shareholder representatives" to oversee and protect the interests of Aegon N.V.. For financial reporting purposes, the results of SIIL appear in the consolidated accounts of Aegon N.V. .

As a financial institution, the Company is also required to comply with rules and guidance issued by the PRA and FCA, which include high level standards covering Principles for Business and Senior Management Arrangements, Systems and Controls and requirements for the way the firm conducts its business.

B.1.1.2 Operating Board, Committees and Sub-Committees

Operating Board

Purpose of the SIIL Operating Board:

To act as the statutory board of Stonebridge International Insurance Ltd; Aegon Direct Marketing Services Europe Ltd (in voluntary liquidation) and Cornerstone International Holdings Ltd ("the Companies"), to have oversight of the entities and to assume overall management responsibilities for the entities. Subject to matters reserved to the shareholder, the articles of association of the Companies and company law generally, the authority and remit of the Operating Board is unlimited.

The SIIL Operating Board is the Statutory Board for SIIL (the insurance entity) as well as Cornerstone International Holding Company and ADMSEL. The Operating Board is supported by a Risk Committee and Remuneration & Nomination Committee. The Executive Committee meets monthly and convening where necessary on matters of day to day management of the business.

The Operating Board will monitor and oversee the matters and responsibilities it has delegated to various boards and committees as set out in its terms of reference.

The Operating Board performs the role of the audit committee.

Composition of the Board

Members of the Operating Board are appointed by AUK Executive as part of their management oversight on behalf of the Aegon N.V. Group.

Committees

Each Committee reports to the Operating Board and Committee outputs and recommendations are discussed in the plenary meetings of the Operating Board. Each of the Committees of the Operating Board has Terms of Reference in which the composition, duties, and internal procedures are defined.

These committees are:

- Executive Committee;
- Risk Committee;
- Remuneration and Nomination Committee;
- SII Model Committee

Executive Committee

Purpose of the Executive Committee:

The Executive Committee is a Sub-Committee of the Operating Board and has been delegated the day-to-day Management of the following Companies: Cornerstone International Holdings Ltd, Stonebridge International Insurance Ltd and Aegon Direct Marketing Services Europe Ltd, currently in liquidation. The Executive Committee meets at least monthly. Not all members of the Operating Board are members of the Executive Committee.

The Executive Committee's role includes making decisions, reports and recommendations to enable the Companies to discharge regulatory and governance obligations in accordance with the applicable regulatory regime, PRA and FCA guidance and best practice and to align the Companies interests with those of shareholders and promote the long-term success of the Companies.

The Executive Committee has authority to make decisions on behalf of the Operating Board save in respect of any matters which require the approval of the Operating Board. The Executive Committee has authority to delegate matters to individuals or to existing or new committees. The Executive Committee does, with the oversight of the Operating Board, supervise certain committees to which it delegates some of its responsibilities.

Risk Committee

Purpose of the Risk Committee:

The Risk Committee is a Committee of the Operating Board. The prime responsibilities of the Risk Committee are to:-

- Satisfy itself on the solvency of the Companies on a realistic stressed basis under, where relevant, Solvency II, for the foreseeable future – the Risk Committee will recommend to the Operating Board an appropriate timescale for forecasts.
- Reviewing on a regular basis the reinsurance strategy.
- Reviewing and approving specified risk tolerances to the Operating Board.
- Ensure via review, recommendation or approval that there is effective leadership in relation to the following:

- Risk issues;
- An appropriate strategy and plan for risk management is in place;
- The risk culture across the organisation is appropriate for an organisation of the size and nature of the Companies;
- The remuneration strategy does not encourage excessive risk taking;
- Appropriate Governance processes are in place and operating effectively;
- All material risks have been identified and accurately assessed;
- Those risks that are outside of the Companies risk tolerance are identified, escalated and are being actively managed to bring the risk back within tolerance;
- Mitigation action is timely and appropriate and material risks are being controlled through an effective, efficient and comprehensive control environment;
- Group policies are appropriate and adhered to;
- The insurance businesses are meeting their regulatory responsibilities.

Remuneration and Nomination Committee

Purpose of the Remuneration and Nomination Committee:
The Remuneration and Nomination Committee is a Committee of the Operating Board. The prime responsibilities of the Remuneration and Nomination Committee are to:-

- Undertake governance over SIIL's remuneration policy.
- On behalf of the Operating Board to determine and regularly review specified remuneration packages, including incentive awards, pension rights and any compensation payments, for each of the members of the Executive Committee and directors. No director or manager shall be involved in any decisions as to their own remuneration.
- In particular the Remuneration and Nomination Committee shall have input for the remuneration of the executive directors and senior executives (which are those employees who exercise a significant influence function or whose activities could have a significant impact on the risk profile of the entity) and the driving incentive structures associated with them.
- To consult with the Chair and/or Chief Executive about their proposals relating to the remuneration of SIIL executives.
- To lead the process for appointments to the Operating Board and to review the composition of and succession for the Operating Board, the appointment of executive and non-executive directors following a formal and rigorous review process. This involves an on-going assessment of the overall balance and performance of the Board and its individual members, ensuring a strong executive and non-executive team.

SII Model Committee

The SIIL SII Model Committee is a Risk Committee chaired by the Chief Risk Officer (CRO). The role of the Committee is to ensure the capital model is appropriate for measuring risk exposures in the business, as well as a wider remit in overseeing SII compliance and financial reporting.

B.1.2 Remuneration policy

B.1.2.1 Aegon UK Group Remuneration Committee

All Remuneration within Aegon UK Group (AUKG) is overseen by the AUKG Remuneration Committee 'REMCO'. Decisions of the REMCO are taken by a quorum of independent Non-Executive Directors and Aegon N.V. shareholder representatives. Whilst REMCO does not directly apply to SIIL as an entity, resources from Aegon UK Corporate Services Limited will be allocated to SIIL as requested and recharged to SIIL as per the service level agreements in place.

B.1.2.2 Aegon Group Global Remuneration Framework

Aegon has developed the Aegon Group Global Remuneration Framework (AGGRF) to govern all remuneration in the Aegon Group, including within AUKG. The AGGRF is reviewed annually by Aegon N.V.

The AGGRF sets out Aegon Group's remuneration philosophy, principles and guidelines to be applied to all staff. It has been developed to comply with applicable remuneration regulation, including the Capital Requirements Directive, Solvency II and applicable Dutch legislation including the Dutch Sound Remuneration Policies Regulations 2014, the Dutch Law on Remuneration Policies for Financial Institutions 2015 and the Dutch Financial Supervision Act. In the UK, the requirements of the FCA Code and PRA Senior Insurance Managers Regime are taken into account in its application.

The AGGRF contains specific rules applicable to the remuneration of the Aegon N.V. Executive Board, Identified Staff and Control Function Staff. It is further supported by detailed methodologies to ensure risk alignment of remuneration policies and practices within the risk tolerances of the Aegon Group. The AGGRF supports Aegon Group HR strategy and local business objectives to:

- attract, retain, motivate and reward a highly-qualified and diverse workforce
- align the interests of executives, managers and all other staff with the business strategy and risk tolerance, values and longer-term interests of Aegon Group as a whole, as well as those of the individual reporting units concerned
- provide a well-balanced and performance-related compensation package to all staff, taking into account shareholder and other stakeholder interests, relevant regulations, and Aegon Group corporate responsibilities.

The AGGRF has the following key pillars, and all remuneration in the Aegon Group must comply with these principles:

- Aegon remuneration is employee-oriented
- Aegon remuneration is performance-related
- Aegon remuneration is geared towards internal and external equity

- Aegon remuneration is risk-prudent

In setting remuneration packages for individual employees, AUKG adopts a job evaluation approach. All roles are evaluated according to recognised job evaluation methodology and are then benchmarked against industry data to ensure that total reward (fixed compensation, variable compensation and contractual benefits) is appropriate to the particular role and local market conditions.

B.1.2.3 Fixed and Variable Compensation

Remuneration packages within AUKG is categorised into Fixed and Variable Compensation. Fixed Compensation includes: Basic Salary, Employer Pension Contributions and contractual benefits. Variable Compensation is any type of remuneration that is not fixed. It includes participation in a performance bonus scheme appropriate to the employee's role. Other forms of variable pay such as sign on bonuses, retention bonuses and variable severance pay are only permitted in exceptional circumstances and are subject to strict governance. Variable Compensation is limited to a maximum % of Basic Salary for all employees.

Variable Compensation paid to AUKG employees is from a bonus pool determined by company performance. The funding of the pool is determined by performance against financial and non-financial indicators which are agreed by the REMCO at the start of each performance year, and that are aligned to AUKG and Aegon Group's Medium Term Plan.

The allocation of individual awards to employees from the bonus pool is determined by personal performance against individual financial and non-financial objectives.

B.1.2.4 Material Changes in the system of governance.

During the course of the year there have been no material changes to the Board. The composition of the Board is detailed below:

Alan Harris	Senior Independent Director
Jim Ewing	Director
Andrew McLeod	Director
Ronald A Scott	Director
Derren Urwin	Director

B.2 Fit and proper requirements

B.2.1 Requirements

SIIL is committed to a policy of proactive compliance with the PRA and FCA rules. The PRA/FCA expect standards of behaviour and conduct to be adhered to. These standards are expected as a minimum, and represent good business, ethical, and HR practice, and should not present a challenge for senior managers in the organisation.

Apart from ensuring that individuals are made aware of their responsibilities, there are two main areas where SIIL has implemented rigorous processes and procedures:

1. the vetting and verification of individuals, and
2. the maintenance of clear organisational accountabilities: for both individual and group decisions.

B.2.1.1 Vetting and verification of Approved Individuals

Those about to be appointed into a Senior Insurance Manager Function (SIMF) or Control Function (CF) roll go through a SIIL vetting and verification process, prior to the application to the PRA/FCA. This applies whether the individual is an external or an internal appointment and whether the appointment arises as the result of restructure, succession planning or redeployment.

To ensure that SIIL meets its regulatory obligations, it carries out 'due diligence' prior to the application being submitted to the PRA/FCA. In essence this requires SIIL to ensure that all the information provided is factually accurate.

Appointment to an approved role is conditional upon SIIL obtaining satisfactory information from the vetting and verification checks and PRA/FCA approval being granted. In assessing fitness and propriety, the PRA/FCA (and SIIL under the 'due diligence' process) consider both the relevance and the importance of any matter which comes to their attention which suggests that a person might not be 'fit and proper'.

B.2.1.2 Criminal Record Checks

Approved roles are subject to a check from the Criminal Records Bureau (CRB) and/or the Scottish Criminal Records Office (SCRO). The information provided, includes details of cautions, reprimands or final warnings, as well as convictions. The check must be satisfactory to SIIL and the PRA/FCA for the appointment to be confirmed. Once the SIIL checks have been carried out satisfactorily, all required information is submitted to the PRA/FCA to go through its approval process.

B.2.1.3 Maintenance of clear organisational accountabilities

SIIL has processes in place to ensure the maintenance of clear organisational accountabilities for key decisions. These processes govern both collective and individual decision making.

The collective element is covered by SIIL high level committee structures, which deal with the corporate governance frameworks of the organisation. Each committee has its own terms of reference which covers its remit, membership and operating/reporting requirements. In addition to this, individual Approved Persons are required to agree and maintain up to date documentation on their role. This includes a job description outlining the main responsibilities of the role. The job description should reflect both the PRA/FCA Controlled Function(s) that apply and details of any high level Boards and Committees that the individual sits on, either as Chairperson or member. The significance of this is that the individual's responsibilities for both collective and individual decisions are reflected.

B.2.2 Process for assessment

The PRA's Senior Insurance Managers Regime (SIMR) came into force on 7 March 2016. The new regime was implemented to take account of Solvency II measures relating to governance, and fitness and propriety of relevant individuals.

The new regime also contains some of the measures included within the Senior Managers Regime for banks which were implemented following the publication of the final report of the Parliamentary Commission on Banking Standards.

The SIMR seeks to ensure that the senior persons who are running insurers, or who have responsibility for key functions at those firms, behave with integrity, honesty and skill. It operates alongside the FCA's approved person regime which is still in force.

One of the PRA's key themes is senior management responsibility and accountability. The PRA continues to stress that it is the individual and collective responsibility of senior management to ensure that firms comply with its regulatory obligations.

The objective of SIMR is to enhance the governance structures of Solvency II insurance firms. The regime reaffirms standards of fitness, propriety and conduct for individuals that fall within scope and reflects the regulators' increased focus on greater personal responsibility and accountability.

The scope of the SIMR covers senior insurance managers who are subject to pre-approval by the PRA for a controlled function together with all the other senior individuals (termed "key function holders") who are effectively running the insurer.

SIIL ensures it has appropriate persons identified and approved in line with the SIMR regime.

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management system

B.3.1.1 SIIL's Enterprise Risk Management Framework

SIIL approach to the management of risk exposures are as outlined within the Enterprise Risk Management Framework ('ERM') which guides the business on its approach to risk. The fundamental purpose of the ERM is to provide a structured approach to identifying, measuring, and managing risk within SIIL – considering both risk exposures in the here and now, as well as those which may arise in the future. The core components of the ERM are outlined in this section.

The dominant policies in force are Accidental Death and Accident Cash Plan policies – both regular premium, general insurance policies. The policies that SIIL has in force and how SIIL operates as a business drives the risk exposures to SIIL. As noted previously in the report, the nature of the products and investment strategy means that SIIL has limited exposure to market risks and a greater emphasis on SIIL's non-market risks such as persistency, expenses and operational risk.

The ERM provides the foundation for managing risk throughout SIIL.

The framework is aligned to the Aegon Group Enterprise Risk Framework and involves:

- Understanding which risks the company is facing
- Establishing an enterprise-wide framework through which risk can be assessed
- Establishing risk tolerances for the level of exposure to a particular risk
- Utilising risk policies to set minimum standards to be met
- Monitoring risk exposure and actively maintaining oversight over the company's overall risk and solvency positions

The ERM framework is represented by the diagram shown:

The ERM framework can be split into various components. The principles and requirements in the context of ERM concern both financial and operational risks.

Risk Strategy & Risk Tolerance: SIIL has in place a risk appetite for the business which articulates its risk objectives and associated limits for the key risks. This is articulated in the form of a risk strategy (the directional and core strategic view of risk) and the risk tolerance (setting out clear limits which are monitored against). Risk strategy and tolerance is reviewed on an annual basis.

Risk Identification: The Company aligns to the Aegon Group Risk Universe which captures all material risk that the company is exposed to. An emerging risk process is in place to ensure the appropriateness of the risk universe and the risk management framework. SIIL has identified the key risks to the business. This is documented with cross functional input within the Top Down Risk Register ('TDRR').

The TDRR observes the most significant risks in the business and requires the risk owner to document the controls in place for each risk. The documentation and review of those risks is an ongoing exercise and part of an iterative process, including related actions (Risk Assessment and Risk Response).

Risk Assessment: The SIIL capital model quantifies the risks to which the business is exposed and capital is held to meet those risks.

Risk Reporting, Monitoring and Response: Risks are monitored and formally reported through the governance structure. This takes various forms including but not limited to Risk Appetite monitoring, Risk Policy compliance, Incident reporting and Compliance Reporting. Mitigating actions are documented as required.

Risk Control: The ERM framework is supported and embedded by a strong risk culture throughout SIIL. This is vital to ensuring that adherence to and use of the ERM is active on a day to day basis.

B.3.1.2 SIIL's risk governance framework

The risk governance framework is aligned to the corporate governance structure outlined earlier in this section.

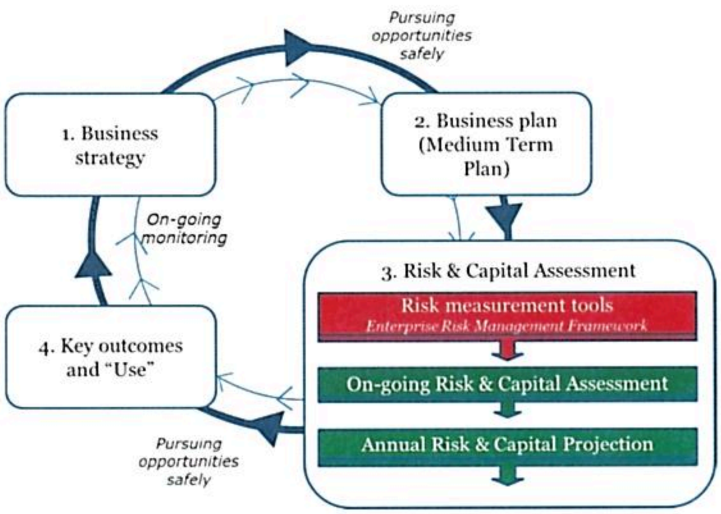
The SIIL ERM operates through a three line of defence model with clear reporting and escalation lines defined. The 2nd line of defence is the Risk team and includes Compliance, as well as Operational Risk and Financial Risk oversight. Risk and control activities are defined and embedded within the three lines of defence.

B.3.2 Own Risk and Solvency Assessment

B.3.2.1 ORSA process overview

The ORSA policy outlines the mandatory requirements for completing the SIIL ORSA. The ORSA enabling framework helps link the process between the business strategy and business plan, to the supporting risk framework and risk & capital assessments, to the use of the results in decision making and hence influence on the business strategy. The process is illustrated as follows:

Simplified ORSA process



B.3.2.2 ORSA Governance

The ORSA report is subject to Board level approval at least annually or on the event of a significant change in the risk profile. The latest report was approved in February 2018.

B.3.2.3 Own Solvency Needs & Capital Management

Solvency II became the primary regulatory capital basis applicable to the business as of 1 January 2016 and hence is the primary metric adopted within the ORSA. Solvency II is a risk-based capital regime which has policyholder protection central to its aims.

There is a need to maintain and meet Regulatory Capital requirements and therefore protect policyholder benefits to the regulatory specified levels. In addition, and in line with Aegon Capital Management Policy, a buffer level of capital is targeted within SIIL. Capital strength is actively considered through Solvency II reporting, and previously as part of the Individual Capital Assessment ("ICA") process, required by PRA under its Prudential Sourcebook for Insurers.

The approved Standard Formula ('SF') has been used to determine solvency needs. Additional capital in the form of a capital buffer represents the level of target capital which enables the business to withstand plausible events whilst still being able to meet regulatory capital requirements. This is further described in Section E.

The company also uses financial forecasts to cover the medium-term financial outlook of the business, including forecasts of solvency positions and key performance indicators under a variety of management decisions. This is a key element of the MTP and ORSA.

Monitoring and managing the level of risk within SIIL against the Risk Tolerance Statements is a key risk management tool. The Risk Tolerance Statements, and the effective management against those, increase the likelihood of SIIL achieving its business objectives and are key to meeting the Solvency II requirements.

B.4 Internal control system

B.4.1 SIIL's Internal control system

This section provides an overview of the Enterprise Risk Management (ERM) Framework and the tools and procedures which enable a robust internal control system. This section is split into three as follows:

1. Enterprise Risk Management Framework
2. Implementation within SIIL
3. Compliance Function

B.4.2.Enterprise Risk Management Framework

The ERM framework specifies the means by which risks are identified, measured, monitored and managed within the business. These measures cover financial, customer, operational and regulatory risks ensuring that SIIL protects the interests of SIIL's customers and shareholders under a wide range of severe but plausible risk events. A system of governance is adopted within SIIL which acts to oversee the embedding of the risk framework and the management of risk exposures to its customers and shareholders.

B.4.3 Implementation within SIIL

SIIL has a core objective of seeking to achieve fair outcomes for its customers as illustrated through its risk appetite statements and supporting Risk Framework. The risk appetite for the business is articulated in its Risk Strategy and Risk Tolerance with supporting risk limits for each risk in its Risk Universe. This provides a comprehensive management tool to identify, measure and manage SIIL risk exposures within specified bounds. Further detail of which is included in the section B.3.1 above.

SIIL sets and monitors against (conduct related) risk appetite based on the regulatory environment in which SIIL operates, internal expectations for the fair treatment of customers, the exposure to and management of financial crime, how SIIL's people behave and conduct themselves, and the operations in the business.

A formal review of risk and control activities (including administrative and accounting procedures) is undertaken by accountable executive and control function holders on a semi-annual basis, culminating in the completion of an Internal Control Certificate which supports managements annual sign off to confirm it complies with Senior Management arrangements, Systems and Controls (SYSC) requirements as set out by the UK regulators, the PRA and FCA. The Internal Control Certificate requires management to attest that appropriate controls are in place.

Risk events ('incidents') can occur and are reported and managed in the business in line with an Incident Management process. This process ensures that all risk events, including significant issues, control failures, breaches or other shortcomings are logged, investigated and remediated.

The Risk Framework is supported by a range of policies which are adopted in the business. These set the processes and bounds within the business to manage risk within the business. A policy compliance exercise is undertaken to test whether policies are embedded in the business. Consideration of actual and potential conflicts of interest is made in alignment with the Conflicts of Interest Policy.

B.4.4 SIIL's Compliance function

The objectives of Risk Team cover both Solvency II Compliance and broader aspects through the Regulatory Compliance function. The objective is to support the SIIL Board and Risk Committee in ensuring that SIIL acts in line with relevant legal, regulatory requirements and group risk tolerance. In this role, the function promotes and fosters compliance with laws and regulations. Delivered well, strong regulatory compliance enables the organisation to act with integrity and enable optimal service delivery to the Company's clients.

B.4.4.1 Compliance Risk

'Compliance risk' at SIIL is defined as: The risk of impairment to the organisation's business model, reputation, integrity and financial condition, resulting from failure to comply with laws, regulations and internal company rules and policies. This includes the risk of failure to comply with established good business practices and failing to balance the expectations of key stakeholders such as customers, employees and society as a whole.

B.4.4.2 Compliance Risk Appetite

SIIL aims to be compliant with all applicable laws and regulations, internal company rules and policies governing its operations and established good business practices. SIIL acts to ensure that this requirement is embedded in the culture of its business operations.

B.4.4.3 Tolerance

Where the application of a rule or guidance is open to interpretation, SIIL may make a judgement if it can evidence a reasonable argument for its actions and the interpretation does not result in SIIL taking any unacceptable risks.
In judging the application of a rule or guidance that is open for interpretation, SIIL considers the following to be unacceptable:

- Customer financial loss or loss of rights due to non-compliance with applicable regulatory requirements;
- Implementation of any product, service, process or system that is likely to result in enforcement action by the regulator;
- Implementation of any product, service, process or system that is likely to result in loss of customer or intermediary confidence in the Company's ability to conduct business compliantly; and
- Business practices that do not display integrity and may damage SIIL's reputation.

B.4.2.4 Role of the Compliance Function

The Compliance Function for SIIL is a sub-component of the Risk Function. Where reference is made below to the 'Compliance Function', this is delivered by the Risk function. The Compliance Function advises the Board and Risk Committee on the assessment and definition of the Compliance Risk Appetite and the risk tolerance levels;

- Advises on the acceptance of specific risk events based upon impact analysis;
- Raises awareness of Compliance Risk Appetite and established good business practices;

- Supports Management by identifying, assessing and overseeing the mitigation of Compliance Risks; and
- Reports on compliance matters that warrant the attention of the Board. Such reports must include as a minimum exceeded compliance risk tolerance levels and unacceptable business practices.

Compliance governance

The SIIL Compliance Function is, on behalf of the Board, responsible for the supervision and oversight of the local Aegon organisation acting in a compliant manner and proactively advising the Board. The SIIL Compliance Function is expected to proactively support Management by highlighting compliance responsibilities and supporting Management in the design and implementation of appropriate controls.

To support this an Integrity Risk Framework is in place that covers two categories from SIIL's operational Risk Universe:

- 2.0 Compliance and
- 4.0 Financial Crime

B.5 Internal audit function

B.5.1 Internal audit function

The SIIL Internal Audit team assists the Executive and the Risk and Audit Committees in protecting the Company's assets, reputation, and sustainability by independently and objectively evaluating the effectiveness of internal controls, risk management and governance processes. The Internal Audit function is the third line of defence.

Audit Services for SIIL are delivered by the AUK Audit Function and the Chief Internal Auditor reports functionally and administratively to the AUK Chief Executive Officer and the AUK Audit Committee. For SIIL the Audit Function reports to the SIIL Board and the Risk Committee (as set out in Section B1.1)

The audit function carry out the following activities;

- Prepare and execute a risk based audit plan which is approved semi-annually by the SIIL Board.
- Identify, and agree with management, opportunities to improve internal controls, risk management and governance processes and verify that such improvements are implemented within a reasonable period of time.
- Assist in the investigation of significant suspected fraudulent activities or conduct special reviews or consulting which may not usually be included in the scope of Internal Audit and notify the Board and the Risk Committee of the results of these activities.
- Issue periodic reports to management, the Board and the Risk Committee, summarising the progress and results of the annual audit plan, as well as on the sufficiency of the Internal Audit resources.
- Execute audits on the functioning of the first and second line of defence.

B.5.2 Independence and Objectivity of the Internal audit function

The role of the Audit function is formally set out within the Audit Charter and is summarised as follows;

Internal Audit executes its duties freely and objectively in accordance with the Institute of Internal Auditors' International Standards for the Professional Practices of Internal Audit as well as with Aegon policies and procedures. Internal Audit's policies also align with the local professional auditing standards.

Internal Audit avoids any conflict of interest and accesses the expertise and knowledge necessary to undertake work in respect of specialist business functions. Outsourcing of Internal Audit activities could alleviate temporary resourcing constraints as well.

The Chief Internal Auditor verifies that any resource sourced through co-source partners possesses the necessary knowledge, skills and other competencies to execute the duties of Internal Audit. These resources are appropriately assigned to audit teams or to otherwise assist the internal auditors and comply with the principles of the Aegon Internal Audit Charter.

Internal audit does not execute any operational duties for SIIL and will not review a business area or function in which they have had recent management or operational responsibility or are otherwise conflicted.

To ensure the independence of the auditors and effective governance, the Chief Internal Auditor (UK) has a primary reporting line to the Chair of the Aegon UK Group Audit Committee and secondary reporting lines to the Group Chief Audit Executive and UK Chief Executive Officer.

The Group Chief Internal Auditor reports functionally and administratively to the AEGON Chief Executive Officer and the Risk and Audit Committee of the Supervisory Board.

B.6 Actuarial function

The SIIL actuarial function is delivered through the shared services agreement with AEGON UK. The Actuarial function is fulfilled by a number of teams within the business and overall accountability for the function rests with the Chief Actuary. The SIIL Chief Actuary is responsible for providing information and assurance as required for the Board. Within SIIL the objective of the Actuarial function is to assist the effective discharge of their responsibilities by:

- Ensuring appropriate methodology and best estimate assumptions for the valuation of the firm's liabilities and related items, including procedures that ensure timely review and appropriate level of granularity on an ongoing basis;
- Ensuring that insurance liabilities and related items are valued and reported properly, including choice of valuation approach, reflection of uncertainty and management discretion, model set-up and other relevant components of valuation;
- Furnishing senior management with actuarial analysis and advice at least concerning:
  - appropriateness of data, assumptions and methodologies used to determine technical provisions and related items including items that are deemed to require future attention;
  - the adequacy of the reinsurance arrangements.
  - impact of strategic or management decisions on liabilities.
- Supporting management in the execution of an effective underwriting policy, also covering pricing and product development, by providing expert opinions; and
- Ensuring compliance with regulatory actuarial (reporting) requirements, including local actuarial sign-off on adequacy of reserves.
- Supporting the Risk Management Function in the development of local capital methodology and undertaking appropriateness assessment of capital methodology developed by Aegon N.V. for the application across the Aegon Group to include SIIL.
- Calculating the Solvency Capital Requirement (SCR) and informing the Board of the regulatory solvency position against approved targets, and making asset and liability management proposals to sustain or improve this position.

B.7 Outsourcing

Outsourcing arrangements and material suppliers impact operational risk as a result of potential changes to and reduced control over the related people, processes and systems. SIIL follows the Aegon UK Procurement & Supplier Management Policy. The aim of this policy is to ensure that arrangements entered into by SIIL which can result in material risk (i.e. risk classification severe and significant) are subject to appropriate due diligence approval and on-going monitoring and governance. All material risks arising from these activities should be appropriately managed to ensure that SIIL is able to meet both its financial and service obligations.

External outsourcing arrangements are arrangements of any form between an organisation and a supplier, by which that the supplier performs a function or an activity, whether directly or by sub-outsourcing, which could otherwise be performed by the organisation itself.

B.7.1 Intra-group outsourcing arrangements

SIIL has no employees, staff are provided by Aegon UK Corporate Services Limited. Aegon Global Technology supplies the provision of data centre services, server infrastructure, internet, email, security services, desktop services, network services and helpdesk services, these costs are recharged through Aegon UK Corporate Services Limited. Kames support the investment strategy of SIIL and costs are recharged per the investment management agreement.

B.7.2 External outsourcing arrangements

SIIL significantly outsources its operations in the business whilst retaining all Management as internal roles within Edinburgh. The most significant outsource arrangements are:

CCA International

CCA International (CCA) provide a multi-lingual customer service to SIIL customers across the UK and Europe. CCA act as the first point of contact for the majority of SIIL customer phone calls, emails, faxes and post. CCA also work collaboratively with the relevant adjudicating bodies in the UK and Europe to ensure a fair outcome when handling customer complaints. CCA also provide a quality assurance service which ensures processing work is to a high standard.

Gielisch

Gielisch (GCM) handle and process customer policy claims for all SIIL customers across the UK & Europe. GCM also enhance the quality model by providing an additional layer of oversight to the quality checks performed.

SSP

SSP Ltd host and maintain the policy administration system while ensuring a high level of data security and system availability is achieved. In addition to this, SSP play a key part in making information available as required for many business critical processes.

The pan-European policies in place means multi-lingual servicing is required and this is in place with CCA and GCM. CCA and GCM provide regular management reporting on service quality and standards against the service level agreement.

The risks to the outsourcers include but are not limited to the failure of the outsourcer and need for replacement – potentially at short notice, reducing standards including poor customer conduct issues, fraud. All outsourcers are required to comply with the approved Outsourcing policy that is adopted by SIIL, compliance of this policy supports the effectiveness of the outsourcing governance framework, the outsourcing strategy and budgets set by SIIL.

B.8 Any other information

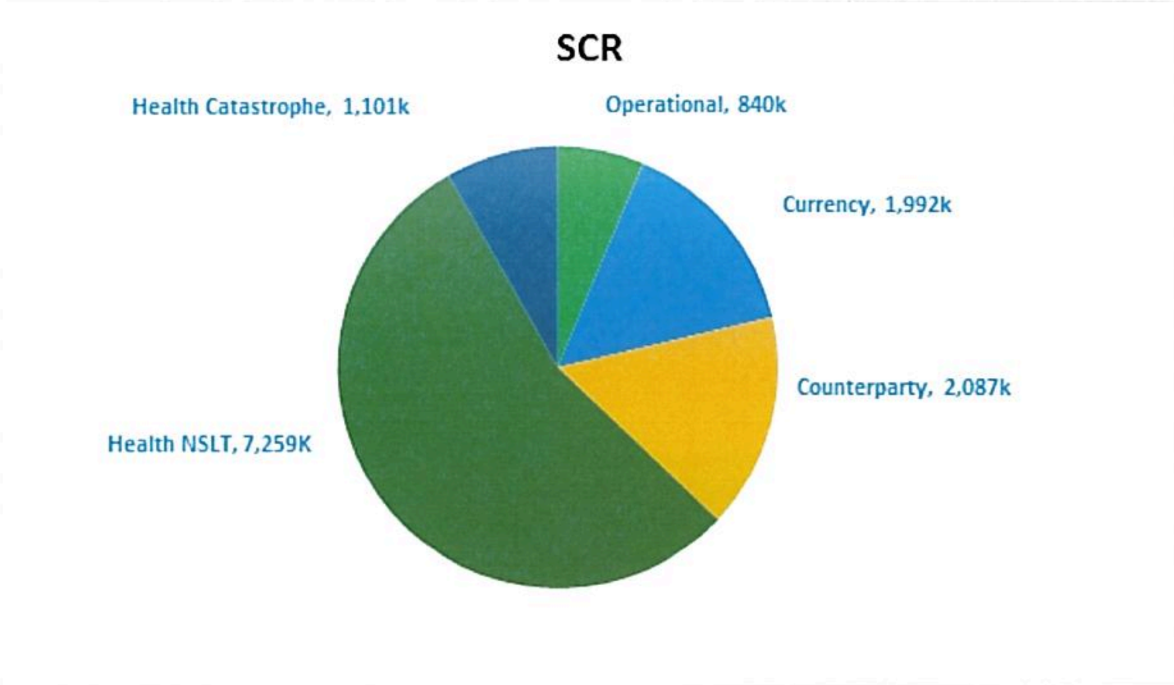
All material information regarding the Systems of Governance for SIIL is covered earlier in this section. The Systems of Governance described are fully embedded in the business. To ensure the Systems of Governance are operating effectively, a regular cycle of Board effectiveness and Terms of Reference compliance is undertaken.

C. Risk Profile

General

SIIL is exposed to Counterparty, Currency risk and Liquidity risk however due to the nature of the products, the risk of externally market driven events is typically low. The main risks that the Company is exposed to are therefore the non-financial risks i.e. Underwriting risk, on-going expense levels and Operational risk which includes legal, compliance and financial crime risks. The Company is also exposed to broader strategic risk. Together these represent the principal risks and uncertainties for SIIL.

Exposure to these risks is monitored by the Operating Board, and appropriate sub-committees of the Board (in particular the Risk Committee) and Executive Committee. The capital held to cover the risks are further disclosed in section E, however a table of the Solvency Capital Requirement "SCR" outlining the key risks exposures are noted below:-



SIIL SCR as at 31st December 2017

Off-balance positions and Special Purpose Vehicles

There are no off-balance sheet positions for SIIL. SIIL does not utilise Special Purpose Vehicles.

Prudent Person principle

The prudent person principle is in scope of SIIL's System of Governance. There are a suite of risk policies in place to ensure that the assets held are appropriate to the nature of the liabilities without taking on excessive risks.

SIIL only invests in assets that SIIL can properly identify, measure, manage, control and report. Assets held to cover Technical Provisions are invested in a manner appropriate to the nature and duration of the corresponding general insurance liabilities. The overall aim is aligned to Article 132 of the Solvency II Directive to only make investments for SIIL's clients' that a "prudent person" would make.

C.1 Underwriting risk

C.1.1 Underwriting risk description

SIIL monitors and manages its underwriting risk by underwriting risk type, to include claims, lapses and expenses. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results from what was expected. SIIL also perform experience studies for underwriting risk assumptions, comparing SIIL's experience to industry experience as well as combining SIIL's experience and industry experience based on the depth of the history of each source to SIIL's underwriting assumptions.

Relating to the SIIL product / policy portfolio, the key underwriting risks relate to claim rates (relating to mortality and morbidity) and persistency levels. Expense risk is also key to the business. There is limited other underwriting risk (e.g. pandemic).

Health Not Similar to Life Techniques (Health NSLT)

The key risks are in respect to accidental death and accident cash plan claim payments. Differences between actual claims experience and underwriting and reserve assumptions may require higher benefit payouts to policyholders and liabilities to be increased.

SIIL's earnings depend significantly upon the extent to which actual claims experience is consistent with the assumptions used in setting the prices for SIIL's products and establishing the technical provisions for expected claims. If actual claims experience is less favourable than the underlying assumptions used in establishing such liabilities, SIIL's income would be reduced. Furthermore, if less favourable claims experience became sustained, SIIL may be required to increase liabilities for other related products, which may reduce SIIL's capital.

Persistency

Differences between actual persistency experience and persistency assumptions may reduce future premium income to SIIL as less customers are serviced. Persistency assumptions may need to be revised and liabilities increased.

SIIL's earnings depend significantly upon the extent to which policyholders continue to remain with SIIL and the policy serviced for them. SIIL regularly monitors persistency levels and customer reasons for cancellation. The annual communication activity has not materially impacted persistency levels.

In respect to the capital position the methodology applied is a one month contract boundary based on the cancellation rights within the terms and conditions of all products which as a result means no future benefit is taken on premiums and persistency/lapse is not a risk to the Solvency II capital position.

Expenses

Expenses are incurred in operating and managing the SIIL business including the servicing of its customers. Differences between actual expense levels and expense level assumptions may require higher expenses to be incurred than planned and liabilities to be increased.

SIIL's earnings depend significantly upon the level of expenses upon which the business can safely operate. SIIL will seek to ensure expenses are managed whilst ensuring that the business is operated in line with its risk appetite.

Expenses run rate are agreed with operations and reflect the current contract positions for key outsource arrangements (GCM, CCA and SSP). It has been prepared utilising the current experience post transition of the business from Maidenhead to Edinburgh during 2016.

C.1.2 Underwriting risk assessment

SIIL currently writes no new business therefore the underwriting risk is limited. SIIL holds no lapse capital due to 1 month contract boundary.

The position against risk appetite is green and is actively monitored.

C.1.3 Risk concentration

The pandemic/catastrophe risk for SIIL is expected to be limited. Based on the insured cover and the nature of a pandemic, it is not considered likely that multiple policyholders will claim against their policy at one time (noting exclusions such as war which could affect multiple policyholders apply).

A catastrophe scenario based on a fatal accident involving multiple insured policyholders does not significantly threaten solvency.

C.1.4 Risk Mitigation

SIIL currently has no formal reinsurance in place or collateral. This is reviewed as part of the review of strategy on an ongoing basis.

C.1.5 Risk Sensitivity

In preparing the ORSA consideration was given to the key following scenarios:-

1) Lapse risk
2) Claims increase
3) Pandemic
4) Economic Breakdown

In all instances due to the methodology of Solvency II, the diversification through geographical locations, the suspension of new business activity and the one month contract boundary there was limited impact on the capital position of the company.

C.2 Market risk

C.2.1 Market risk description

Market risk is the risk that assets or liabilities for the company are adversely impacted by market movements including equity market rises/falls, credit risk movements (covered below in separate section), property market rises/falls of market volatility increases/decreases.

As noted in section A.3 SIIL currently holds either cash or invests in the Kames Sterling Reserve Fund, which is a collective investment fund investing in cash and cash equivalents. As a result it has no material exposure to equity, credit or interest risk rate risk.

SIIL have expense liabilities in Euros and GBP. SIIL hold assets in Euros and GBP. The nature of the assets held is to enable SIIL to meet the liabilities and reduce currency related risk within the business. The overall currency exposure is managed to a defined risk appetite. Solvency Risk Capital is held to meet extreme currency exchange rate movements.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction and subsequently revalued at a reporting period (annual) average rate. Assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken directly to the reserves.

C.2.2 Capital Market's risk assessment

Market risk is not significant for SIIL at the current time as a result of investment strategy. Assets are invested in cash or low volatility/low return funds which seeks to reduce loses in downward market conditions in exchange for lower return potential. Solvency Risk Capital is held against the risks on the assets.

The liabilities are short term protection products with limited market risk exposure. Against the current investment strategy, the SIIL exposure is within risk appetite.

C.2.3 Risk concentration

Aligned to the Prudent Persons principles assets are held in cash and in the Kames Sterling Reserve Fund. There is limited concentration market risk as this fund operates within a framework to ensure diversification which is further monitored by management. Counterparty credit risk is covered separately.

C.2.4 Risk Mitigation

SIIL has deliberately chosen to minimise market risk. The investment strategy is derived and managed consistently with risk appetite.

C.2.5 Risk Sensitivity

There are no material market sensitivities to markets as a result of the current investment strategy.

C.3 Credit risk

C.3.1 Credit risk description

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause SIIL to incur a financial loss. An indication of SIIL's exposure to credit risk is the quality of the investments and counterparties with which it transacts. SIIL manages credit risk exposure by individual counterparty, sector and asset class, including cash positions.

SIIL holds assets predominantly in cash and in low volatility/low return funds which seeks to reduce losses in downward market conditions in exchange for lower return potential.

Cash assets
All cash assets are held in rated banks providing day to day operational funds to run the business and meet policyholder claims. There is a counterparty risk to the banks in the event of significant counterparty failure.

Kames Sterling Reserve Fund
The majority of the assets for SIIL are held within the Kames Sterling Reserve Fund which provides a small return for a low risk investment. This is consistent with a low risk investment strategy for SIIL Counterparty risk exists on the fund which is measured and monitored.

C.3.2 Credit risk Assessment

SIIL operates within the Aegon N.V. Credit Name Limit Policy (CNLP), under which limits are placed on the aggregate exposure that it has to any one counterparty. Limits are placed on the exposure at both Aegon group level and individual country units. Limits utilised for SIIL are a component of the Aegon N.V. and Aegon UK limits whereby SIIL seek to limit counterparty exposures within the wider CNLP limits of the Aegon Group. The limits vary by a rating system, which is a composite of the main rating agencies (S&P, Moody's and Fitch) and Aegon N.V.'s internal rating of the counterparty. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit for the Company and rating category as soon as possible. There have been no reportable breaches during 2017 by SIIL.

SIIL has adopted a new low risk strategy as part of management's review of the business. Cash has been placed in instant access bank accounts for day to day operational expenses. Excess cash has been placed into the Kames Sterling Reserve Fund, which is also easily accessible and has a low risk strategy.

Maturity analysis Financial Instruments

All financial assets have a contractual maturity of less than one year.

C.3.3 Risk concentration

The majority of cash assets are held within two banks. This leads to some concentration risk for SIIL specifically but is managed in the context of Aegon Group to be within CNLP limits.

The assets are held in cash and in the Kames Sterling Reserve Fund. There is limited concentration market risk. Counterparty credit risk is covered separately.

C.3.4 Risk Mitigation

SIIL utilise the CNLP approach noted above to mitigate the small amount of credit risk. The investment strategy is derived and managed consistently within risk appetite.

C.3.5 Risk Sensitivity

There are no material credit sensitivities to markets as a result of the current investment strategy.

C.4 Liquidity risk

C.4.1 Liquidity risk description

The definition of "liquidity risk" is where SIIL is unable to realise investments and other assets in order to settle their financial obligations when they fall due. This will arise where SIIL cannot meet policyholder claim payouts due to a lack of accessible funds with which to make the benefit payments.

C.4.2 Liquidity risk assessment

SIIL generates liquidity in both Euro and Sterling as it receives regular premiums in the period, across the markets in which it is active, which are used to fund future claims and as a source of liquidity. Furthermore, SIIL hold sufficient cash assets in both Sterling and Euro which can be readily realised. Cash assets and the Kames Sterling Reserve Fund can be drawn immediately with limited barriers to execution.

Liabilities may fall due in GBP or Euros. This presents currency risk where the assets held may not be matched in the same currency (separate section). Cash is held in Euros and GBP in order to provide liquidity in both key business currencies.

Liquidity is assessed against a defined risk appetite ensuring SIIL can meet all payments due even in the event of stressed conditions. The current position is that SIIL is well within its risk appetite and liquidity risk exposure deemed to be low.

C.4.3 Risk concentration

There is not significant risk concentration in regards to SIIL's asset portfolio.

C.4.4 Risk Mitigation

Liquidity is managed through holding highly liquid assets.

C.4.5 Risk Sensitivity

There are no material sensitivities to liquidity as a result of the current investment strategy.

C.5 Operational risk

C.5.1 Operational risk description

SIIL Operational Risk is all risks relating to the operational running of the business including meeting regulatory and legal & compliance requirements, servicing SIIL customers, and processing claims. For SIIL, a significant amount of the operations of the business are outsourced to preferred suppliers – in particular CCA who perform the administrative duties of SIIL and GCM who service customer claims. All management staff of the Company are employed by Aegon UK Corporate Services Limited.

SIIL's management maintains a well-controlled environment and sound policies and practices to control these risks and keep operational risk at appropriate levels. Notwithstanding these control measures, however, operational risk is part of the business environment in which SIIL operates, and is inherent in SIIL's size and complexity, as well as SIIL's geographic diversity.

SIIL's risk management activities cannot anticipate every economic and financial outcome, or the specifics and timing of such outcomes. Furthermore, if the contractual arrangements put in place with any third-party service providers are terminated, including contractual arrangements with providers of information technology, administrative or investment management services, SIIL may not be able to find an alternative provider on a timely basis or on equivalent terms. SIIL may incur losses from time to time due to these types of risks.

SIIL's operations support a range of transactions and are highly dependent on the effective functioning of information technology and communication systems. In this regard, SIIL benefits from being part of the wider Aegon Group and its wider IT technology and related controls. While systems and processes are designed to support a range of transactions and avoid systems failure, fraud, information security failures, processing errors and breaches of regulation, any failure may lead to an adverse effect on SIIL's operations and subsequently, corporate reputation.

In addition, SIIL must commit resources to maintain and enhance its existing systems in order to keep pace with industry standards and customer preferences (or in conjunction with Aegon Group). If SIIL fails to keep up-to-date information systems, SIIL may not be able to rely on information for product pricing, and risk management decisions. Even though back-up and recovery systems and contingency plans are in place, SIIL cannot assure investors that interruptions, failures or breaches in security of these processes and systems will not occur, or if they do occur, that they can be adequately addressed. The occurrence of any of these events may have a materially adverse effect on Aegon's businesses, results of operations and financial condition.

C.5.2 Operational risk assessment

Operational risk is measured and monitored on an on-going basis in line with the Risk Framework. The primary tools are the use of Risk Registers (which document the key risks and related controls in the business), Risk Management Information, and Risk Appetite assessments.

Business Risk

An overview of key business risks is directly monitored as these risks are directly related to SIIL's strategy. These risks are reported to Management and the Operating Board through Risk Appetite reporting and CRO reporting. Key business risks include:

- Overall business strategy across regions and products in the medium to long term, noting SIIL is currently making no new business sales
- Customer communications to ensure that SIIL continues to provide clear and accurate policyholder information
- Insurance Premium Tax rates in the UK are increasing
- Claims ratios, persistency levels and expense levels as outlined in earlier sections

SIIL remains within risk appetite for business risk. However, progress continues to be made to fully adopt all Aegon best practices in the business which will continue into 2018.

Processing Risk

Processing risk covers operational processes in the business focused on the servicing of customers, as well as financial reporting and accounting processes. Controls are identified by key process and risk owners and these are documented in the risk register for SIIL and monitored by Management and the Operating Board. Key processing risks include:

- Management and oversight of outsourcers to administer policies and claims. Service line agreements are in place and are monitored, combined with regular reporting of key metrics.
- Implementation of Solvency II for SIIL. Inaccuracies in (financial) models could have a significant adverse effect on SIIL's business. Reliance on various (financial) models to measure risk, price products and establish key results, is critical to SIIL's operations.
- Billing processes with distribution partners are subject to controls to reduce the risk of incorrect billing or issues arising in the billing process.

SIIL remains within risk appetite for processing risk. However, progress continues to be made to fully adopt all Aegon best practices in the business which will continue into 2018.

A formal review of risk and control activities (including administrative and accounting procedures) is undertaken by accountable executive and control function holders on a semi-annual basis, culminating in the completion of an Internal Control Certificate which supports managements annual sign off to confirm it complies with Senior Management arrangements, Systems and Controls (SYSC) requirements as set out by the UK regulators, the PRA and FCA.

Legal & Compliance Risk

Legal and compliance risk is the risk that losses occur due to non-voluntary legal liabilities, inadequate legal documentation, inadequate patenting of brands and intellectual property, and the risk of impairment to the organisation's business model, reputation, integrity and financial condition, resulting from failure to comply with laws, regulations and internal company rules and policies, as well as late identification of significant legal and regulatory developments, possibly resulting in an inability to influence the final outcome.

Legal and Compliance risk is within tolerance as existing exposures are monitored.

C.5.3 Risk concentration

There are no significant areas of concentration risk to note.

Disaster recovery plans are in situ, aligned to Aegon UK, in the event of a major business disturbance at the Edinburgh head office of the key outsource providers. SIIL will test these in line with AUK data recovery testing in 2017.

C.5.4 Risk Mitigation

A range of risk mitigation techniques are employed to ensure Operational Risk remains within Operational risk appetite. Generally, this is achieved through day to day management of processes and people, controls and risk appetite monitoring. Where incidents arise, corrective action is taken in line with the incident management process.

Material risk mitigation techniques include outsourcer and supplier oversight, compliance monitoring programme, and disaster recovery processes.

C.5.5 Risk Sensitivity

Operational risk is not subject to significant sensitivity, consideration in the ORSA was given to one off events which would have caused a reduction in overall value but wouldn't have significant impacted the overall capital position.

C.6 Other material risk

There are no other material risks to capital position of SIIL.

D. Valuation for Solvency Purposes

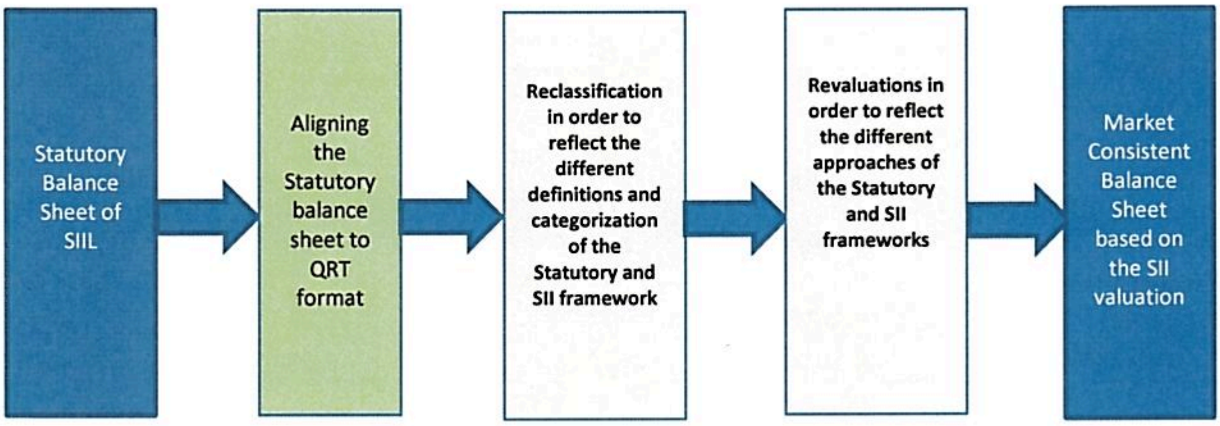
In this chapter the Statutory balance sheet is reconciled to the Solvency II balance sheet for full year 2017 and 2016, the comparative year. First the approach used for the reconciliation of the Statutory balance sheet to the Solvency II balance sheet is discussed. Followed by a reconciliation by balance sheet item between the Statutory and Solvency II, this includes also a discussion of the differences in measurement and presentation between Statutory and Solvency II and the resulting reconciliation differences.

Approach towards Statutory to Solvency II balance sheet reconciliation

In this section of the report SIIL discusses the approach towards the Statutory to Solvency II ('SII') balance sheet reconciliation.

The table below represents the impact of each reconciliation step when moving from the statutory balance sheet to the market consistent balance sheet based on the Solvency II valuation.

The process for the reconciliation is as follows:



SIIL is audited under UK GAAP and Solvency II.

Total balance sheet reconciliation overview

The table below shows the total statutory to Solvency II reconciliation.

Stonebridge International Insurance Ltd Balance Sheet At As 31st December 2017				31st December 2016		
(£000s)	Statutory Results	Adjustments	Solvency II Results	Statutory Results	Adjustments	Solvency II Results
Assets						
Deferred acquisition costs	**210**	**(210)**	**-**	229	(229)	-
Deferred tax assets	**187**	**23**	**210**	229	(27)	202
Investments (other than assets held for index-linked and unit-linked contracts)	**34,546**	-	**34,546**	32,482	-	32,482
Insurance and intermediaries receivables	**536**	-	**536**	520	-	520
Other assets	**1,593**	-	**1,593**	1,149	-	1,149
Cash and cash equivalents	**15,236**	-	**15,236**	9,148	-	9,148
Total assets	**52,308**	**(187)**	**52,121**	43,757	(256)	43,501
Liabilities						
Technical provisions – health not similar to life techniques	**6,482**	**78**	**6,404**	5,968	386	5,582
Provisions other than technical	**997**	-	**997**	52	-	52
Payables (trade, not insurance)	**2,547**	-	**2,547**	3,214	-	3,214
Total liabilities	**10,026**	**78**	**9,948**	9,234	386	8,848
Excess of assets over liabilities	***42,282***	***(109)***	***42,173***	*34,523*	*130*	*34,653*

In the next sections, the reconciliation for each balance sheet items is discussed. The statutory valuation basis is fully disclosed in the statutory accounts. All amounts disclosed in this section are in £000s.

Cash based assets have no judgements or assumptions applied to value the assets. There have been no changes to the recognition or valuation in the year 2017.

D.1 Assets

D.1.1 Deferred acquisition costs

Stonebridge International Insurance Ltd Balance Sheet At As 31st December 2017				31st December 2016		
(£000s)	Statutory Results	Adjustments	Solvency II Results	Statutory Results	Adjustments	Solvency II Results
Deferred acquisition costs	**210**	**(210)**	-	229	(229)	-

Statutory Treatment:
Marketing and commission costs are deferred and amortised over the contractual life of the policy, i.e.: one month contract boundary.

A breakdown of the deferred acquisition costs or deferred expenses is described in more detail in Note 7b of SIIL Statutory Accounts.

Reconciliation difference: Revaluation Adjustments
Deferred acquisition costs are not recognised under Solvency II and for this reason they are eliminated (i.e. revalued to nil with corresponding adjustment of reducing equity/own funds) as one of the reconciliation steps.

Solvency II Treatment:
Solvency II regulation does not recognise deferred acquisition costs. Under Solvency II, these are captured under insurance liabilities, which for Solvency II embody all the acquisition costs and servicing costs within the contract boundaries defined. For the valuation of the insurance liabilities, the principles of accrual based accounting and the matching principle are not applied.

D.1.2 Deferred tax assets

Stonebridge International Insurance Ltd						
Balance Sheet At As 31st December 2017				31st December 2016		
(£000s)	Statutory Results	Adjustments	Solvency II Results	Statutory Results	Adjustments	Solvency II Results
Deferred Tax Assets	**187**	**23**	**210**	229	(27)	202

Statutory Treatment:
Deferred tax assets are recognised for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of differences arising from the initial recognition of goodwill and of assets and liabilities that do not impact taxable or accounting profits. A tax asset is recognised for tax loss carry forwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised (IAS 12.5). IAS 12 prescribes the accounting treatment for income taxes. Current tax liabilities or assets for the current and prior periods shall be measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period (IAS 12.46). Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period (IAS 12.47).

Future profit projections have been performed, this analysis supports that future taxable profits will be available against which the deferred tax asset can be utilised. These projections have also been stressed to include forms of risk that SIIL may be exposed to and the profitability is recorded for each of the years of the stressed outcome.

The parameters used within the base scenario within the planning period are; lapses continue at a level of 12% in 2018 and each year thereafter. This level of lapse rate has been determined by past experience for which is expected to continue into the future. Claims are expected to increase in line with the past business review commitments to improved benefits for the policyholder. Expenses have been based on the new target operating model, where there is small number of staff fully allocated to SIIL and a recharge model has been put in place for other areas of expertise, to include senior management.

The written down value of fixed assets which is driving the value of the deferred tax asset is £1.1 million with a current writing down allowance of 18% per annum. The table below gives an indication of the level of deferred tax in future years with the assumed tax rate of 17% and assuming that the writing down allowance of 18% is claimed each year. Beyond 2022 the amounts are deemed to be immaterial for analysis for deferred tax purposes. However, it is anticipated that there will be sufficient profits to cover the deferred tax.

Statutory to Solvency II reconciliation adjustments:

Considering the requirements outlined above - Statutory to Solvency II reconciliation of deferred tax items should comprise of DTA and DTL adjustments reflecting the tax impact of all the individual revaluations processed for other components of the Balance Sheet. In these cases, where the sum of all above adjustments results in a DTA or DTL changing their sign to negative - effectively becoming DTL and DTA respectively – additional reclassification is required to move the new balance to the correct – opposite – side of the Balance Sheet.

Reconciliation difference: Valuation Adjustments

The difference between the balance sheet valuation of the deferred tax assets according to Statutory or Solvency II is purely driven by the differences in the valuation of the relevant balance sheet elements between the Statutory balance sheet and Solvency II balance sheet. This is in relation to deferred acquisition costs of £210K being allowable for Statutory results but not for Solvency II. Other differences are found in the technical provisions of £78k. Where tax bases do not change, revaluation adjustments related to DTA balances must then be equal to the revaluation adjustments for other balance sheet elements multiplied by applicable tax rates.

Solvency II Treatment:

The methodology for the calculation of deferred taxes follows the provisions of IAS 12. Deferred tax assets and liabilities are recognised for Solvency II purposes, on the basis of the temporary differences between the carrying amounts of the assets and liabilities in the solvency balance sheet for Solvency II and the tax balance sheet values according to local tax regulations of the insurance company. Deferred tax accrual is calculated at the corporate tax rate. Tax losses carried forward are recognised as deferred tax assets if their future benefit is likely according to the forecast. Solvency II guidelines do not require discounting of deferred tax assets and liabilities, in line with the Statutory approach.

D.1.2 Deferred tax assets presented in UK GAAP for the planning period;

Fixed Asset Timing Difference - Deferred Tax Analysis – Asset Year End - £000's	Asset Value £000's	Deferred Tax Amount £000's
2017	£1,103	£187
2018	£904	£154
2019	£741	£126
2020	£608	£103
2021	£498	£85
2022	£409	£69

D.1.3 Investments (other than assets held for index- and unit-linked contracts)

Stonebridge International Insurance Ltd						
Balance Sheet At As 31st December 2017				31st December 2016		
(£000s)	Statutory Results	Adjustments	Solvency II Results	Statutory Results	Adjustments	Solvency II Results
Investments (other than assets held for index- and unit-linked contracts)	**34,546**	-	**34,546**	32,482	-	32,482

Statutory Treatment:

The investments are valued at fair value using market prices these prices are readily available on actively traded markets. No significant judgments or estimates are used in the valuation of these investments.

Reconciliation difference: Reclassification/Valuation Adjustments

There are no reclassification or valuation adjustments required for solvency II.

Solvency II Treatment:

Solvency II requires Fair Value to be applied as a result no adjustment is required as both treatments are aligned. There were no assets valued using alternative valuation methods.

D.1.4 Insurance and intermediaries receivables

Stonebridge International Insurance Ltd						
Balance Sheet At As 31st December 2017				31st December 2016		
(£000s)	Statutory Results	Adjustments	Solvency II Results	Statutory Results	Adjustments	Solvency II Results
Insurance and intermediaries receivables	**536**	-	**536**	520	-	520

Statutory Treatment:

'Insurance and intermediaries receivables' are valued at amortised cost.

Statutory to Solvency II reconciliation adjustments:

Given the short term nature of these receivables there should be no considerable measurement differences between amortized cost (for Statutory) and Fair Value (Solvency II).

Reconciliation difference: Reclassification Adjustments:

There is no reclassification adjustment required for solvency II.

Solvency II Treatment:

Solvency II requires that receivables are held at Fair Value.

D.1.5 Any other Assets

Stonebridge International Insurance Ltd						
Balance Sheet At As 31st December 2017				31st December 2016		
(£000s)	Statutory Results	Adjustments	Solvency II Results	Statutory Results	Adjustments	Solvency II Results
Any other Assets	**1,593**	-	**1,593**	1,149	-	1,149

Statutory Treatment:

Any other assets are initially recognised at Fair Value and are subsequently measured at amortised cost. There are no differences between fair value and amortised cost.

Reconciliation difference: Reclassification/Valuation Adjustments

There are no reclassification or valuation adjustments required for solvency II.

Solvency II Treatment:

Solvency II requires that any other assets are held at Fair Value. There were no assets valued using alternative valuation methods.

D.1.6 Cash and cash equivalents

Stonebridge International Insurance Ltd						
Balance Sheet At As 31st December 2017				31st December 2016		
(£000s)	Statutory Results	Adjustments	Solvency II Results	Statutory Results	Adjustments	Solvency II Results
Cash and Cash Equivalent	**15,236**	-	**15,236**	9,148	-	9,148

Statutory Treatment:

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements.

Reconciliation difference: Reclassification/Valuation Adjustments

There are no reclassification or valuation adjustments required for solvency II.

Solvency II Treatment:

The Fair Value approach is prescribed, with the exception that the amount should not be less than the amount payable on demand.

D.2 Technical provisions

SIIL has only one line of business, this is income protection insurance.

There are no amounts recoverable from reinsurance or special purpose vehicles.

The transitional provisions on technical provisions, the matching adjustment and the volatility adjustment are not used by SIIL.

D.2.1 Technical provisions – Health not similar to Life Techniques – Non –Life

Stonebridge International Insurance Ltd

Balance Sheet At As 31st December 2017				31st December 2016		
(£000s)	Statutory Results	Adjustments	Solvency II Results	Statutory Results	Adjustments	Solvency II Results
Technical provisions	**6,482**	**(78)**	**6,404**	5,968	(386)	5,582
Best Estimate	**6,482**	**(585)**	**5,897**	5,968	(965)	5,003
Risk Margin	**-**	**507**	**507**	-	579	579

Statutory Treatment:
The insurance liability generally includes reserves for unearned premiums, unexpired risk, and outstanding claims and benefits. No catastrophe reserves are included in the measurement of the liability.

The reserve for unearned premiums includes premiums related to periods of risk coverage for periods beyond the balance sheet date. Generally, the reserve is released over the coverage period of the premium and is recognised as premium income.

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred, but have not been reported to SIIL. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions. Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to general insurance contracts.

Reconciliation difference: Reclassification/Valuation Adjustments
This Risk Margin of £507k is not a concept under the Statutory Accounting basis. The difference in best estimate is £585k where Solvency II includes an expense overhead reserve of £363k and the Solvency II unearned premium reserve is £279k compared to £1,127k under the Statutory Accounting basis, this is mainly due to Solvency II applying a loss ratio to premiums.

Solvency II Treatment:
Under Solvency II, Stonebridge operates with a 1 month contract boundary, which results in an implicit, immediate, lapse rate of 100% (i.e. no further premiums received and no cover provided beyond the exposure period for the latest premium received). This is based on policy conditions being monthly renewable.

As such, the majority of the technical provisions relates to incurred but not settled claims for which reserves are set equal to the Statutory reserves described above with an additional allowance for expenses as Solvency II requires the inclusion of indirect overhead expenses (e.g. salaries to general managers, auditing costs, office rent, buying new IT systems, etc.). The run off period and current risk free values make discounting under SII immaterial so no adjustment is currently made to discount cashflows.

The unearned premium reserve under Solvency II is calculated as the value of expected future claims and expenses expected to be paid on the premiums related to the period of risk coverage beyond the balance sheet date. Therefore an expected loss ratio is applied to the unearned premium to reflect this.

Under Solvency II SIIL are required to hold a Risk Margin which is the market consistent value of the variability around best estimate assumptions for non-hedgeable risk. In other words, this is a cost that you would expect to pay to transfer the risk of the uncertainty of your future cashflows to another market participant.

The most significant assumption for SIIL in calculating the technical provisions is the development of incurred but not settled claims. The assumptions around the development of these claims payments are set using the Bornhuetter-Ferguson method to merge the reserves based on the expected future pattern of claims with those based on forecast claim ratios, depending on the maturity of claims already settled. Adjustments have been made for the expected impact of the Past Business Review that is not yet fully reflected in the historic claims data, which is the greatest area of uncertainty of future claims.

D.3 Other liabilities

D.3.1 Provisions other than technical

Stonebridge International Insurance Ltd						
Balance Sheet At As 31st December 2017				31st December 2016		
(£000s)	Statutory Results	Adjustments	Solvency II Results	Statutory Results	Adjustments	Solvency II Results
Provisions other than technical	**997**	**-**	**997**	52	-	52

Statutory Treatment:

Management have provided £1,150k in the year as a provision for a historic product cancellation decision. During the year £153k was utilised. This provision is to allow for customers unfairly disadvantaged by this decision to be appropriately remediated in 2018.

Reconciliation difference: Reclassification Adjustments

There is no reclassification adjustment required for solvency II.

Solvency II Treatment:

A provision is recognised for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, considering all its inherent risk and uncertainties, and where applicable the time value of money. There were no provisions valued using alternative valuation methods.

D.3.2 Payables (trade, not insurance)

Stonebridge International Insurance Ltd						
Balance Sheet At As 31st December 2017				31st December 2016		
(£000s)	Statutory Results	Adjustments	Solvency II Results	Statutory Results	Adjustments	Solvency II Results
Payables (trade, not insurance)	**2,547**	**-**	**2,547**	3,215	-	3,215

Statutory Treatment:

Considered 'financial liabilities' to be valued at amortized cost or Fair Value. If at Fair Value, then the discount rates should also include the OCS. There are no differences between fair value and amortised cost.

Reconciliation difference: Reclassification/Valuation Adjustments

There are no reclassification or valuation adjustments required for solvency II.

Solvency II Treatment:

Fair Value approach is prescribed, excluding the effect of changes in Own Cost Spread (OCS) since initial recognition. There were no liabilities valued using alternative valuation methods.

D.4. Alternative methods of valuation

SIIL do not apply alternative methods of valuation for both assets and liabilities.

D.5. Other material information

All material information for the valuation of solvency purposes has been detailed in the earlier sections.

E. Capital Management

E.1 General

The Capital Management Policy ('CMP') supports SIIL's financial strategy to adequately protect the interests of customers, return capital to SIIL's shareholders and execute strategic priorities.

E.1.1 Capital Management Policy

The CMP sets out the capital floor level and capital target level for the business. The ORSA is accompanied by, and helps inform the capital floor and capital target.

The CMP is intended to ensure transparency and accountability with respect to capital management within SIIL. The CMP provides trigger levels for management action or management response such as initiation of a capital plan.

As noted in the ORSA report, a limit has been set for SIIL using capital coverage ratios. The Capital Management Zones for SIIL have been set by using the ratio of own funds to the standard capital requirement in line with the requirements of the Capital Management policy. SIIL has also set a floor level for the capital coverage ratio, this is set at 170%. This was assessed by management as part of the process outlined in Section B in regards to ORSA.

The set Capital Management Zones for SIIL as:

Recovery Zone:	100% - 150%
Retention Zone:	150% - 170%
Target Zone:	170% - 270%

These are set to allow time for management actions to be taken if an adverse occurs and therefore minimise the likelihood of a breach of the SCR.

The capital management policy is reviewed at least annually by the Board through the ORSA. The current position against the capital and risk tolerance policy is subject to regular monitoring by management.

A full formal Budgeting and Medium Term Planning process is undertaken each year involving a detailed review of SIIL's business plan including detailed projections of the expected level of Own Funds, SCR and IFRS earnings over the projection period. This takes into account the company's best estimate of future investment conditions, expenses and business experience such as persistency and claim rates.

E.1.2 Managing dividends and executing of strategic priorities

SIIL aims to pay out a sustainable dividend to allow the shareholder to share in its performance. However the decision to pay dividends has been deferred until the outcome of Brexit is known.

E.1.3 Monitoring capital positions

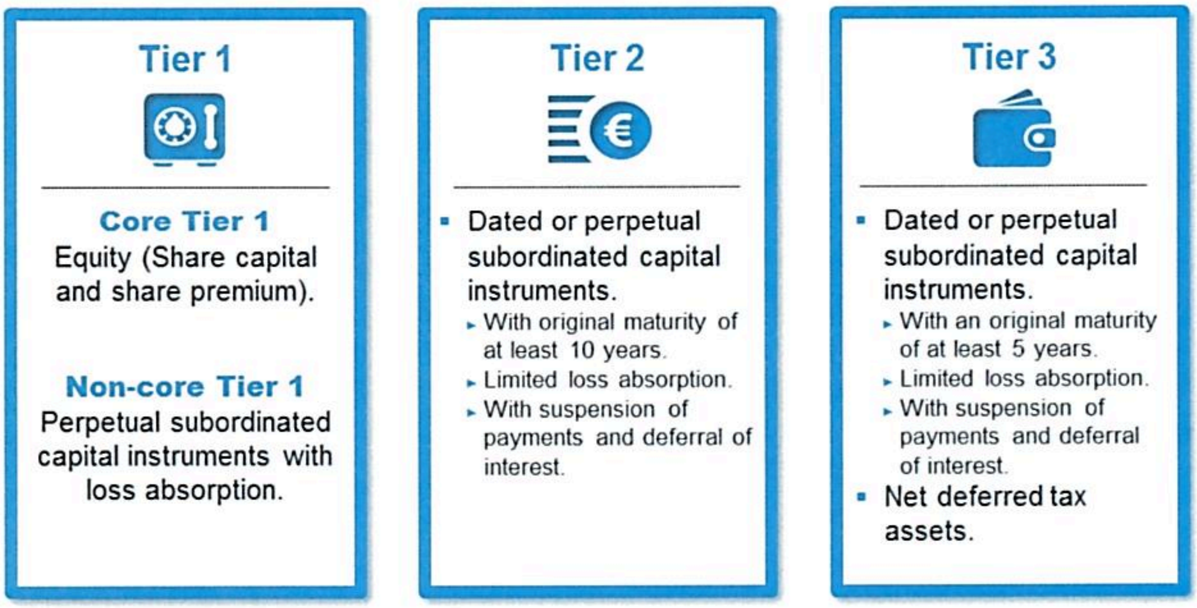
Management monitor the capital position on a quarterly basis from a full valuation perspective and against the estimated capital position throughout the period. As a result of the investment portfolio and no new business being written the key drivers that are monitored are the claims loss ratio and level of lapses in respect to ongoing premiums. This is monitored through the Executive Committee to ensure experience is aligned to expectations.

E.2 Own Funds

E.2.1 Tiering of Own Funds

The Own Funds are divided into three Tiers. The general characteristics of these tiers are visualised in the figure below.

Figure 1 Overview of general characteristics of the three Tiers of Own funds



Restrictions apply to the eligibility of Tier 2 and Tier 3 capital, as well as the eligibility of Non-core Tier 1. The total of Tier 2 and Tier 3 Own Funds may not exceed 50% of the SCR whilst Tier 3 Own Funds is limited to 15% of SCR. Non-core Tier 1 may not exceed 20% of Tier 1 Own Funds.

In regards to SIIL, the majority of own funds qualifies as Tier 1 as it relates to either share capital £7,500k or it is retained earnings. The £210k (2016: £202k) of deferred tax asset qualifies as tier 3 own funds and is not restricted in regards to admissibility based on the rules noted above.

Ordinary share capital

Ordinary share capital comprises of 7,500k ordinary shares of £1 par. The amount presented here aligns with data published in SIIL statutory accounts for the year 2017.

Reconciliation reserve

Reconciliation reserve is calculated as follows:

Key differences between Statutory Equity and Solvency II		
£ 000's	2017	2016
Excess of Assets over Liabilities	**42,173**	34,653
Share Capital	**(7,500)**	(7,500)
Deferred Taxes	**(210)**	(202)
Reconciliation Reserve	34,463	26,951

Total available own funds to meet the SCR

This amount £42,173k (2016: £34,653k) reconciles with the total available own funds.

Total available own funds to meet the Minimum Capital Requirement (MCR)

The total available funds to meet the MCR as at 31 December 2017 is £41,963k (2016: £34,451K).

The MCR is derived from a proportion of the best estimate liability and written premiums for 12 months.

The MCR cannot be covered by Tier 3 funds. For this reason the available own funds to meet MCR is £210k (2016: 202k) lower than the own funds available to meet SCR.

As a result of the Tiering described above, on 31 December 2017 the Eligible Own Funds of Aegon Group consisted of:

- £41,963k (2016: £34,451k) of unrestricted Tier 1;
- £210k (2016: £202k) of Tier 3, related to DTA assets.

E.2.2 Difference between Solvency Own Funds and Statutory Shareholders Equity

The main differences between the Solvency Own Funds and statutory equity as reported in SIIL's statutory accounts are related to the difference in the valuation of the insurance liabilities recognition of deferred acquisition costs and the resulting tax impact of these valuation differences.

Key differences between Statutory Equity and Solvency II		
£ 000's	2017	2016
Statutory accounts net assets	**42,282**	34,523
Deferred Acquisition Costs	**(210)**	(229)
Technical provision	**78**	386
Deferred Taxes	**23**	(27)
Reconciliation Reserve	42,173	34,653

E.2.3 Transitional arrangements

There are no transitional arrangements in place for SIIL.

E.2.4 Ancillary own funds

The year-end 2017 solvency position of SIIL did not include any ancillary own funds as defined by article 89(1) of Directive 2009/138/EC.

E.2.5 Description of items deducted from Own Funds

There were no items deducted from own funds for SIIL.

E.3 Solvency Capital Requirement and Minimum Capital Requirement

E.3.1 SCR

This section outlines the period to 31 December 2017 Solvency Capital Requirement based on the Standard Formula Model ('SF') for SIIL.

Table 5 Calculation of SIIL's Solvency ratios per 31 December 2017

Solvency II key figures £000's	**31 December 2017**	31 December 2016
Own Funds	**42,173**	34,653
Net SCR	**10,496**	10,575
Solvency Ratio	402%	328%

SCR based on Standard Formula

At 31 December 2017, SIIL's SCR was £10,496k (2016: £10,575k).

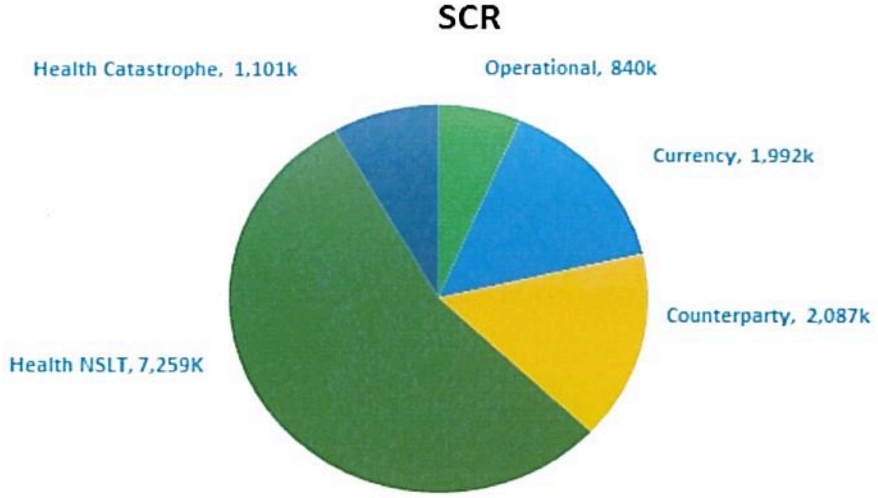
In the implementation of the Solvency II Directive, the UK has made use of the Member State option provided for in article 51(2) of the Solvency II Directive relating to capital add-on disclosure.

The composition of the Standard Formula SCR is shown in the chart below.

E.3.2 SCR split by risk module

The chart below shows the breakdown of the SF SCR components. The ***gross SCR*** has amounts at 31 December 2017 of £13,285k (2016: £13,013k). The ***net SCR*** after diversification is £10,496k (2016: £10,575k). The diversification benefit amount is £3,289k (2016: £2,937k).

Standard Formula SCR composition SIIL at 31 December 2017



As shown by the chart above, the main risk categories contributing to SIIL SCR are Health Not Similar to Life Techniques ("NSLT") risk, Counterparty, Currency and Health Catastrophe risks. There was no material change in the SCR in the year.

E.3.3 Simplified Calculations

SIIL does not apply simplified calculations for calculating the Standard Formula SCR.

E.3.4 Undertaking- specific parameters (Article 104(7) of Directive 2009/138/EC)

SIIL does not apply SIIL-specific parameters as defined in article 104(7) of the Directive 2009/138/EC for calculating the Standard Formula SCR.

E.3.5 Article 51(2) of Directive 2009/138/EC

The UK does not make use of the option provided for in the third subparagraph of article 51(2) of Directive 2009/138/EC.

E.3.6 Minimum Capital Requirement

The Minimum Capital Requirement ("MCR") of SIIL at 31 December 2017 was £3,142k (2016: £3,141k). This has not materially changed throughout 2017.

E.4 Use of the duration-based equity risk sum-module

SIIL does not use the duration-based equity risk sub-module set out in article 304 of Directive 2009/138/EC in the calculation of the SCR.

E.5 Differences between standard formula and partially internal model used

Whilst Aegon N.V. applies a partial internal model to its consolidated SCR, for the purposes of SIIL the Standard Formula approach is adopted both for the group reporting process and solo reporting process. As a result there are no differences arising.

E.6 Non-compliance with capital requirements

There have not been any instances during 2017 where the estimated SIIL Solvency II ratio was below the SCR, nor the MCR level. To ensure that SIIL maintains adequate solvency levels, actual and expected capital positions are monitored against capitalisation zones that are defined in Capital Management Policy. Several activities as referred to in section E.1.1 are performed to monitor and assess the future development of SIIL's solvency position such as the annual Budget Medium Term Planning (MTP) process and regular, periodic management reporting. Decisions to return capital to shareholders are based on solvency assessments that look into the impact of the decision on the current and future projected solvency position.

Any solvency position is subject to risks and SIIL therefore constantly monitors such risks. These are quantified to determine the impact of such risks on the current and the projected solvency position. The Capital Management Policy provides actions that need to be performed as soon as the identified risks could cause the projected solvency ratio to fall within a particular capitalisation zone.

E.7 Any other information

There have been no changes to information previously submitted in any application to use undertaking specific parameters in the standard formula SCR or a matching adjustment in the calculation of technical provisions.

There is no further information available in respect of capital management.

F Templates

The following QRT are required for the SFCR:-

QRT Ref	QRT Template Name	Unaudited	Audited
S.02.01.02	Balance Sheet		✓
S.05.01.02	Premiums, claims and expenses	✓	
S.05.02.01	Premiums, claims and expenses by country	✓	
S.17.01.02	Non-Life Technical Provisions		✓
S.19.01.21	Non-Life Insurance Claims	✓	
S.23.01.01	Own Funds		✓
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula		✓
S.28.01.01	Minimum Capital Requirement – Only Life or only non-life insurance or reinsurance activity		✓

The templates are included at the end of this report.

G) Approval by the Board of Directors of the Solvency and Financial Condition Report

Financial period ended 31st December 2017

We certify that:

1. The Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and
2. We are satisfied that:
   (a) Throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and
   (b) It is reasonable to believe that, at the date of the publication of the SFCR, the insurer has continued so to comply, and will continue so to comply in future.

H) Approval by the Administrative, Management or Supervisory Body of the SFCR and reporting templates.

Chief Executive Officer
Date: 3rd May 2018

I) Appendix – QRT Templates

S.02.01.02 Balance Sheet

S.02.01.02
Balance sheet

	Solvency II value
Assets	C0010
Goodwill	
Deferred acquisition costs	
Intangible assets	
Deferred tax assets	210
Pension benefit surplus	
Property, plant & equipment held for own use	
Investments (other than assets held for index-linked and unit-linked contracts)	34,546
Property (other than for own use)	
Holdings in related undertakings, including participations	
Equities	
Equities - listed	
Equities - unlisted	
Bonds	
Government Bonds	
Corporate Bonds	
Structured notes	
Collateralised securities	
Collective Investments Undertakings	34,546
Derivatives	
Deposits other than cash equivalents	
Other investments	
Assets held for index-linked and unit-linked contracts	
Loans and mortgages	
Loans on policies	
Loans and mortgages to individuals	
Other loans and mortgages	
Reinsurance recoverables from:	
Non-life and health similar to non-life	
Non-life excluding health	
Health similar to non-life	
Life and health similar to life, excluding index-linked and unit-linked	
Health similar to life	
Life excluding health and index-linked and unit-linked	
Life index-linked and unit-linked	
Deposits to cedants	
Insurance and intermediaries receivables	536
Reinsurance receivables	
Receivables (trade, not insurance)	
Own shares (held directly)	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	
Cash and cash equivalents	15,236
Any other assets, not elsewhere shown	1,593
Total assets	52,121

	Solvency II value
Liabilities	C0010
Technical provisions - non-life	6,404
Technical provisions - non-life (excluding health)	
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - health (similar to non-life)	6,404
TP calculated as a whole	
Best Estimate	5,897
Risk margin	507
Technical provisions - life (excluding index-linked and unit-linked)	
Technical provisions - health (similar to life)	
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - life (excluding health and index-linked and unit-linked)	
TP calculated as a whole	
Best Estimate	
Risk margin	
Technical provisions - index-linked and unit-linked	
TP calculated as a whole	
Best Estimate	
Risk margin	
Other technical provisions	
Contingent liabilities	
Provisions other than technical provisions	997
Pension benefit obligations	
Deposits from reinsurers	
Deferred tax liabilities	
Derivatives	
Debts owed to credit institutions	
Financial liabilities other than debts owed to credit institutions	
Insurance & intermediaries payables	
Reinsurance payables	
Payables (trade, not insurance)	2,547
Subordinated liabilities	
Subordinated liabilities not in BOF	
Subordinated liabilities in BOF	
Any other liabilities, not elsewhere shown	
Total liabilities	9,948
Excess of assets over liabilities	42,173

I) Appendix – QRT Templates (continued)

S.05.01.02 Premiums, claims and expenses

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

	Line of Business for: non-life insurance and reinsurance obligations (direct business and ...	Total
	Income protection insurance	
	C0020	C0200
Premiums written		
Gross - Direct Business	27,880	27,880
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share		
Net	27,880	27,880
Premiums earned		
Gross - Direct Business	27,978	27,978
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share		
Net	27,978	27,978
Claims incurred		
Gross - Direct Business	7,777	7,777
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share		
Net	7,777	7,777
Changes in other technical provisions		
Gross - Direct Business		
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share		
Net		
Expenses incurred	11,118	11,118
Administrative expenses		
Gross - Direct Business	655	655
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share		
Net	655	655
Investment management expenses		
Gross - Direct Business	21	21
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share		
Net	21	21
Claims management expenses		
Gross - Direct Business	1,000	1,000
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share		
Net	1,000	1,000
Acquisition expenses		
Gross - Direct Business	2,651	2,651
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share		
Net	2,651	2,651
Overhead expenses		
Gross - Direct Business	6,791	6,791
Gross - Proportional reinsurance accepted		
Gross - Non-proportional reinsurance accepted		
Reinsurers' share		
Net	6,791	6,791
Other expenses		
Total expenses		11,118

I) Appendix – QRT Templates (continued)

S.05.02.01 Premiums, claims and expenses by country

S.05.02.01
Premiums, claims and expenses by country

Non-life	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
	C0010	C0020	C0030	C0040	C0050	C0060	C0070
		DE	FR	IT			
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premiums written							
Gross - Direct Business	10,277	9,942	2,923	2,175			25,318
Gross - Proportional reinsurance accepted							
Gross - Non-proportional reinsurance accepted							
Reinsurers' share							
Net	10,277	9,942	2,923	2,175			25,318
Premiums earned							
Gross - Direct Business	10,299	9,966	2,952	2,196			25,414
Gross - Proportional reinsurance accepted							
Gross - Non-proportional reinsurance accepted							
Reinsurers' share							
Net	10,299	9,966	2,952	2,196			25,414
Claims incurred							
Gross - Direct Business	4,132	2,773	-98	609			7,415
Gross - Proportional reinsurance accepted							
Gross - Non-proportional reinsurance accepted							
Reinsurers' share							
Net	4,132	2,773	-98	609			7,415
Changes in other technical provisions							
Gross - Direct Business							
Gross - Proportional reinsurance accepted							
Gross - Non-proportional reinsurance accepted							
Reinsurers' share							
Net							
Expenses incurred	1,360	1,307	433	598			3,699
Other expenses							6,599
Total expenses							10,297

I) Appendix – QRT Templates (continued)

S.17.01.02 Non-Life Technical Provisions

S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance – Income protection insurance	Total Non-Life obligation
		C0030	C0180
Technical provisions calculated as a whole	R0010		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050		
Technical provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross	R0060	279	279
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140		
Net Best Estimate of Premium Provisions	R0150	279	279
Claims provisions			
Gross	R0160	5,618	5,618
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240		
Net Best Estimate of Claims Provisions	R0250	5,618	5,618
Total Best estimate - gross	R0260	5,897	5,897
Total Best estimate - net	R0270	5,897	5,897
Risk margin	R0280	507	507
Amount of the transitional on Technical Provisions			
Technical Provisions calculated as a whole	R0290		
Best estimate	R0300		
Risk margin	R0310		
Technical provisions - total			
Technical provisions - total	R0320	6,404	6,404
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330		
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	6,404	6,404

I) Appendix – QRT Templates (continued)

S.19.01.21 Non-Life Insurance Claims

S.19.01.21

Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	Z0010	1

Gross Claims Paid (non-cumulative)

(absolute amount)

	Development year											
	Year	0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											
N-9	R0160											
N-8	R0170											
N-7	R0180	4,450	2,657	308	195	27	26	67	60			
N-6	R0190	3,962	2,529	211	40	37	75	3				
N-5	R0200	3,967	1,878	299	293	13	37					
N-4	R0210	4,024	2,142	538	144	35						
N-3	R0220	3,994	2,516	410	173							
N-2	R0230	4,143	2,135	357								
N-1	R0240	3,115	2,915									
N	R0250	3,933										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100		-
	R0160		-
	R0170		-
	R0180	60	7,790
	R0190	3	6,857
	R0200	37	6,487
	R0210	35	6,883
	R0220	173	7,092
	R0230	357	6,635
	R0240	2,915	6,030
	R0250	3,933	3,933
Total	R0260	7,513	51,707

Gross undiscounted Best Estimate Claims Provisions

(absolute amount)

	Development year											
	Year	0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											
N-9	R0160											
N-8	R0170											
N-7	R0180							45	-			
N-6	R0190						24	-				
N-5	R0200					71	73					
N-4	R0210				195	224						
N-3	R0220			396	298							
N-2	R0230		658	311								
N-1	R0240	3,177	653									
N	R0250	3,210										

		Year end
		C0360
	R0100	
	R0160	
	R0170	
	R0180	-
	R0190	-
	R0200	73
	R0210	224
	R0220	298
	R0230	311
	R0240	653
	R0250	3,210
Total	R0260	4,768

I) Appendix – QRT Templates (continued)

S.23.01.01 Own Funds

S.23.01.01
Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
	C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	7,500	7,500			
Share premium account related to ordinary share capital					
Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
Subordinated mutual member accounts					
Surplus funds					
Preference shares					
Share premium account related to preference shares					
Reconciliation reserve	34,463	34,463			
Subordinated liabilities					
An amount equal to the value of net deferred tax assets	210				210
Other own fund items approved by the supervisory authority as basic own funds not specified above					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own		< Note: this deduction now included in R0290/C0020 as per 2.1.0 taxonomy			
Deductions					
Deductions for participations in financial and credit institutions					
Total basic own funds after deductions	42,173	41,963			210
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand					
Unpaid and uncalled preference shares callable on demand					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Other ancillary own funds					
Total ancillary own funds					
Available and eligible own funds					
Total available own funds to meet the SCR	42,173	41,963			210
Total available own funds to meet the MCR	41,963	41,963			
Total eligible own funds to meet the SCR	42,173	41,963			210
Total eligible own funds to meet the MCR	41,963	41,963			
SCR	10,496				
MCR	3,142				
Ratio of Eligible own funds to SCR					
Ratio of Eligible own funds to MCR					

Reconcilliation reserve	C0060
Excess of assets over liabilities	42,173
Own shares (held directly and indirectly)	
Foreseeable dividends, distributions and charges	
Other basic own fund items	7,710
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
Reconciliation reserve	34,463
Expected profits	
Expected profits included in future premiums (EPIFP) - Life business	
Expected profits included in future premiums (EPIFP) - Non- life business	
Total Expected profits included in future premiums (EPIFP)	

I) Appendix – QRT Templates (continued)

S.25.01.21 Solvency Capital Requirement – for undertakings on Standard Formula

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	1992		
Counterparty default risk	R0020	2087		
Life underwriting risk	R0030			
Health underwriting risk	R0040	7610	None	
Non-life underwriting risk	R0050			
Diversification	R0060	-2533		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	9156		

		C0100
Calculation of Solvency Capital Requirement		
Operational risk	R0130	1340
Loss-absorbing capacity of technical provisions	R0140	0
Loss-absorbing capacity of deferred taxes	R0150	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	10496
Capital add-on already set	R0210	
Solvency capital requirement	R0220	10496
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

I) Appendix – QRT Templates (continued)

S.28.01.01 Minimum Capital Requirement – Only Life or only non-life insurance or reinsurance activity

S.28.01.01
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

	C0010
MCR_{NL} Result	3,142

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
	C0020	C0030
Medical expense insurance and proportional reinsurance		
Income protection insurance and proportional reinsurance	5,896	27,880
Workers' compensation insurance and proportional reinsurance		
Motor vehicle liability insurance and proportional reinsurance		
Other motor insurance and proportional reinsurance		
Marine, aviation and transport insurance and proportional reinsurance		
Fire and other damage to property insurance and proportional reinsurance		
General liability insurance and proportional reinsurance		
Credit and suretyship insurance and proportional reinsurance		
Legal expenses insurance and proportional reinsurance		
Assistance and proportional reinsurance		
Miscellaneous financial loss insurance and proportional reinsurance		
Non-proportional health reinsurance		
Non-proportional casualty reinsurance		
Non-proportional marine, aviation and transport reinsurance		
Non-proportional property reinsurance		

Linear formula component for life insurance and reinsurance obligations

	C0040
MCR_L Result	0

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	C0050	C0060
Obligations with profit participation - guaranteed benefits		
Obligations with profit participation - future discretionary benefits		
Index-linked and unit-linked insurance obligations		
Other life (re)insurance and health (re)insurance obligations		
Total capital at risk for all life (re)insurance obligations		

Overall MCR calculation	C0070
Linear MCR	3,142
SCR	10,496
MCR cap	4,723
MCR floor	2,624
Combined MCR	3,142
Absolute floor of the MCR	2,196
Minimum Capital Requirement	3,142

J) Auditor Opinion

Report of the external independent auditors to the Directors of Stonebridge International Insurance Ltd ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2017, (**'the Narrative Disclosures subject to audit'**); and

- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **'relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02, S.05.02.01 and S.19.01.21;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**'the Responsibility Statement'**).

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
3rd May 2018