

Registered no: 3462546

CORNERSTONE INTERNATIONAL HOLDINGS LTD

***Strategic Report, Directors' Report
and
Consolidated Financial Statements***

for the year ended 31 December 2013

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CORNERSTONE INTERNATIONAL HOLDINGS LTD

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For the year ended 31 December 2013

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CORNERSTONE INTERNATIONAL HOLDINGS LTD

DIRECTORS AND ADVISORS

For the year ended 31 December 2013

Company Number	3462546	
Registered office	Braywick Gate Braywick Road Maidenhead Berkshire SL6 1DA	
Directors	Ian D Hutchinson Paul E Thilo Michael I Gourlay Alan Harris Amanda Bowe Thomas Young	Chairman Chief Executive Officer
Secretary	Sean O'Riordan	
Auditor	Ernst & Young LLP Statutory Auditor 1 More London Place London SE1 2AF	
Bankers	Barclays Bank Plc Financial Services Team Level 11 One Churchill Place London E14 5HP	

CORNERSTONE INTERNATIONAL HOLDINGS LTD**STRATEGIC REPORT***For the year ended 31 December 2013*

The directors present their strategic report for the year ended 31 December 2013

Principal activities

The Company is the holding company for three subsidiaries, AEGON Direct Marketing Services Europe Ltd, Stonebridge International Insurance Ltd and Erfahrungsschatz GmbH

The principal activities of the Group (comprising the Company and its subsidiaries) continued to be the development and marketing of Accident and Health general insurance products, principally through direct marketing with affinity partners in selected European markets as well as the servicing of active policies

Review of the business / Key Performance Indicators

During the year the Group conducted a strategic review and decided to stop writing new business in France, Italy and Spain. The combination of the restructuring in Europe, voluntary suspension of marketing in the UK with the implementation of a variation of permission, has resulted in the business experiencing a 57% fall in sales as measured by New Paid Annualised Premium (NPAP) compared to 2012, and a 9.6% drop in Gross Written Premiums. This decline in sales has led to a decrease in Annualised Premium In Force to £57.6m, a fall of 11% from the prior year.

The Group has continued to cooperate and work closely with the FCA through the year to ensure that appropriate control procedures and customer outcomes are maintained and delivered. The FCA enforcement team has been engaged with the Group with a final notice of findings to be released in early 2014. The Group has made provisions for a potential FCA fine and implementing an action plan (see note 19). The provision made represents current best estimates and assumptions.

The business is heavily based in continental Europe with over 90% of new business now coming from outside the UK and 65% of the portfolio denominated in non sterling currencies. This is likely to continue in 2014 based on 2014 targets in Germany, but will be rebalanced in subsequent years.

A summary of the key results is provided below

	2013 £'m	2012 £'m	Increase / (Decrease)	
			£'m	%
Gross written premiums	54.6	60.4	(5.8)	(9.6)
New Paid Annualised Premium (NPAP)	8.8	20.3	(11.5)	(56.7)
Annualised Premium in Force (APIF)	57.6	64.7	(7.1)	(11.0)
Pre-Tax (Loss)/Profit	(12.8)	3.8	(16.6)	(437)
Post-Tax (Loss)/Profit	(10.9)	2.8	(13.7)	(489)

Marketing Channels – The Group's principal sales channel continued to be outbound telemarketing

Future developments – The Group will continue to review its offerings ensuring that the customer is at the centre of the business. The Group is investing in a new policy administration system and plans to utilise this system to test new channels and products with a drive to digital marketing strategies. The company will expand its digital offering and improve its product range to provide a stronger proposition to customers and business partners.

CORNERSTONE INTERNATIONAL HOLDINGS LTD

STRATEGIC REPORT (continued)

For the year ended 31 December 2013

Principal Risks and Uncertainties

Economy and the Consumer – In 2013 the uncertainty around the future of the Eurozone and economic crisis has eased slightly with some markets, such as the UK, showing encouraging signs of recovery. However, the Group has encountered a continued operational challenge with markets in France, Italy and Spain, especially regarding increased unemployment and a continued trend of reductions in disposable income. Lending within our core markets remains suppressed which continues to put a squeeze on our business partners and suppliers, increasing credit risk.

Investments – The Group maintains a conservative balance of government and investment grade corporate bonds. Nevertheless, changing yields of government and corporate bonds add volatility to the investment portfolio. Performance in 2013 has been below a benchmark portfolio, largely owing to an overweight position in government bonds through 2013.

Markets - The Group markets new business in the UK and Germany. After a strategic review, new business operations were ceased in France, Spain and Italy in December 2013 and the portfolios from these countries put into run-off. The Group also has a run-off portfolio in Nordic markets. There are no current plans for market territory expansion.

Regulatory – The Group is regulated by the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA), formerly the Financial Services Authority (FSA) following the restructure of the UK regulatory regime in April 2013. The Group maintains contact with the regulators to ensure all regulatory obligations are adhered to. The Group plans to implement actions arising from the expected enforcement notice expected to be received in early 2014.

By order of the board



Paul E Thilo –

Chief Executive Officer

Date 20 March 2014

CORNERSTONE INTERNATIONAL HOLDINGS LTD

DIRECTORS' REPORT

For the year ended 31 December 2013

The directors present their report and financial statements for the year ended 31 December 2013

Results and Dividends

The Group made a loss for the year, after taxation, of £10,873,000 (2012 profit of £2,831,000) The directors do not recommend that any dividend be paid (2012 £nil)

Governance - The governance structure of the Group was updated and enhanced during 2013 The Operating Board has oversight of the Group The Audit and Risk Committee was split into two separate committees and agendas were strengthened Two new Committees were introduced to improve control and decision-making, namely a Strategic Decisions Committee and Executive Management Committee Oversight on behalf of AEGON Group has transferred during the year from Transamenca to AEGON UK, which has included a change in representation on the Board of the Company

Risk management - The Group has recruited a new Head of Risk and Compliance during 2013 and is in the process of strengthening its Risk Management Framework Feedback on best practice has been received from the regulator and external consultancy advice A detailed implementation plan has been established for 2014 to establish a Risk Management culture and continue to prepare the foundations for Solvency II

Solvency II - The Group is working towards the revised 2016 implementation date of Solvency II The Group has previously developed a draft ORSA report which will be enhanced and represented to the Board through 2014 and 2015 The Group has previously declared its intent to use the standard model for regulatory reporting and has established a benchmark for this using QIS5

Regulatory - The Group is regulated by the Financial Conduct Authority and Prudential Regulation Authority, formerly the Financial Services Authority (FSA) following the restructure of the UK regulatory regime in April 2013, with a passport to write business in various countries in Europe The Group currently markets in accordance with the Markets section in the Strategic Report Effective from 10th December 2012, the Group varied its insurance permissions with the effect that it voluntarily ceased to write new business in the UK through outbound telemarketing whilst a review was conducted with the FCA to ensure compliance with TCF principles An FCA enforcement team engaged with the Group from May 2013 and is expected to provide notice details in early 2014 A provision has been made for an estimated potential fine and for the implementation of an action plan to address the findings of the FCA report (see note 19) The Group plans, in 2014, to apply to vary its insurance permissions to enable it to re-commence UK sales The Group will be in a strong position to ensure that its customers are receiving appropriate customer outcomes against TCF principles as a result of the changes to products, processes, controls and oversight

Treating Customers Fairly (TCF) - The Group has revisited its governance structure to strengthen and make improvements to the current suite of Management Information to ensure customers receive the appropriate outcomes against TCF principles and outcomes A regular review of TCF outcomes is included within the revised Group reporting and governance structure

Directors - David Rekosi resigned as Company Director on 11 April, 2013 Amanda Bowe was appointed as Company Director on 18 July, 2013, Thomas Young was appointed as Company Director on 12 February 2014 and Richard Dallas was appointed Company Director on 2 August, 2013 and resigned as Company Director on 16 December 2013 The current directors are listed on page 1

Environmental issues - The Group operates in accordance with the AEGON Group Code of Conduct as well as the AEGON Environmental Policy under which it strives to respect the environment and undertake initiatives to promote greater environmental responsibility However, the nature of the Group's business and operations means that it has a limited direct impact on the physical environment in which it operates The Group keeps its operating procedures and policies under review for environmental impact

CORNERSTONE INTERNATIONAL HOLDINGS LTD

DIRECTORS' REPORT

For the year ended 31 December 2013

Directors' qualifying third party indemnity provisions

During the year the Group maintained liability insurance for directors and officers of the Group through arrangements made by AEGON NV for the benefit of its subsidiary companies

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial investment activities, and its exposure to price, credit, liquidity and cash flow risk are described in the Strategic Report on pages 2 and 3. The Group has sound financial resources together with contracts in the in-force book and solid supplier relationships to support its business operations. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook and restructuring of branches. The financial performance of 2013 has been significantly impacted by both provisions made for the ongoing regulatory work and the country closures. However, performance of the in-force portfolio will continue to be strong and deserves a positive outlook over the forthcoming year. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

CORNERSTONE INTERNATIONAL HOLDINGS LTD

DIRECTORS' REPORT

For the year ended 31 December 2013

Statement of the directors' responsibilities

The directors are responsible for preparing the Strategic Report, Annual Report and the group financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements


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

Auditor

The Board has noted that in accordance with the Aegon N V audit programme, Ernst & Young LLP are due to resign as auditors to the Aegon Group companies and PricewaterhouseCoopers LLP are due to be appointed as the auditors to the Aegon Group companies.

Ernst & Young, having indicated their intention to resign as auditors to the Group and Company and not reporting on any circumstances connected with the same which Ernst & Young considered should be brought to the notice of the Board, the Board have agreed in accordance with section 485 of the Companies Act 2006 that PricewaterhouseCoopers should be appointed as auditors to the Group and Company, with effect from the date of Ernst & Young's resignation.

By order of the board



Paul E Thilo – Chief Executive Officer

Date 20 March 2014

CORNERSTONE INTERNATIONAL HOLDINGS LTD

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CORNERSTONE
INTERNATIONAL HOLDINGS LTD**

For the year ended 31 December 2013

We have audited the financial statements of Cornerstone International Holdings Ltd for the year ended 31 December 2013 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report, Directors' Report and Consolidated Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

CORNERSTONE INTERNATIONAL HOLDINGS LTD

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CORNERSTONE
INTERNATIONAL HOLDINGS LTD**

For the year ended 31 December 2013

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

**John Headley (Senior Statutory Auditor)
For and on Behalf of
Ernst & Young LLP, Statutory Auditor
London**

Date: 21 March 2014

CORNERSTONE INTERNATIONAL HOLDINGS LTD**CONSOLIDATED PROFIT AND LOSS ACCOUNT***For the year ended 31 December 2013***Technical account - general business**

	<i>Note</i>	2013		2012	
		£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross written premiums	3	54,569		60,404	
Outward reinsurance premiums	4	(97)		(175)	
Net premiums written			54,472		60,229
Change in the provision for unearned premiums					
Gross amount	7(a)	1,793		305	
Reinsurers' share		-		-	
Change in the net provision for unearned premiums			1,793		305
Earned premiums, net of reinsurance			56,265		60,534
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		(6,640)		(7,118)	
Reinsurers' share		-		-	
Net claims paid			(6,640)		(7,118)
Change in the provision for claims					
Gross amount	7(c)	(107)		571	
Reinsurers' share	4	-		-	
Change in the net provision for claims			(107)		571
Claims incurred, net of reinsurance			(6,747)		(6,547)
Net operating expenses	8		(59,211)		(51,485)
Balance on the technical account for general business			(9,693)		2,502

CORNERSTONE INTERNATIONAL HOLDINGS LTD**CONSOLIDATED PROFIT AND LOSS ACCOUNT****Non - technical account**

	<i>Note</i>	2013		2012	
		£000	£000	£000	£000
Balance on the technical account for general business			(9,693)		2,502
Investment income		940		962	
Other income		541		199	
Realised (losses) /gains on investments		(51)		93	
Unrealised (losses)/gains on investments		(991)		69	
Investment expenses and charges		(61)		(61)	
			378		1,262
Restructuring costs	9		(3,441)		-
(Loss)/Profit on ordinary activities before tax			(12,756)		3,764
Tax credit/(charge) on (loss)/profit on ordinary activities	11		1,883		(933)
(Loss)/Profit for the financial year			(10,873)		2,831

All income and expenditure relates to continuing operations

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2013	2012
	£000	£000
(Loss)/Profit for the financial year	(10,873)	2,831
Translation differences on foreign currency	(498)	(1,138)
Total recognised gains and losses relating to the financial year	(11,371)	1,693

CORNERSTONE INTERNATIONAL HOLDINGS LTD**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013**

	<i>Note</i>	2013		2012	
		£000	£000	£000	£000
<u>ASSETS</u>					
Investments					
Other financial investments	15		23,652		23,920
Reinsurers' share of technical provisions					
Claims outstanding	7(c)		2		2
Debtors					
Debtors arising out of direct insurance operations		3,545		5,468	
Other debtors	16	2,802		352	
			6,347		5,820
Other assets					
Tangible assets	17	3,399		2,804	
Cash at bank and in hand		12,552		7,679	
			15,951		10,483
Prepayments and accrued income					
Deferred acquisition costs	7(b)	13,686		21,103	
Other prepayments and accrued income		1,865		1,459	
			15,551		22,562
Total assets			61,503		62,787

CORNERSTONE INTERNATIONAL HOLDINGS LTD**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013**

	Note	2013		2012	
		£000	£000	£000	£000
<u>LIABILITIES</u>					
Capital and reserves					
Called up share capital	14	25,075		25,075	
Profit and loss account	12	7,752		19,123	
Shareholders' funds			32,827		44,198
Technical provisions					
Provision for unearned premiums	7(a)	4,539		6,332	
Claims outstanding	7(c)	3,325		3,218	
			7,864		9,550
Accruals and deferred income			7,889		5,265
Creditors	18		2,432		2,700
Provisions for other risks	19		10,491		1,074
Total liabilities			61,503		62,787

The financial statements on pages 9 to 25 were approved by the directors on 20 March 2014
and were signed on its behalf by



Paul E Thilo

Date 20 March 2014

CORNERSTONE INTERNATIONAL HOLDINGS LTD**COMPANY BALANCE SHEET AS AT 31 DECEMBER 2013**

	<i>Note</i>	2013		2012	
		£000	£000	£000	£000
Fixed Assets					
Investments					
Investments in subsidiaries	22		34,616		34,616
Current assets					
Debtors – amounts due from group undertakings		-		-	
Cash at bank and in hand		5		5	
		<u>5</u>		<u>5</u>	
Current liabilities					
Creditors – amounts falling due within one year					
Amounts owed to group undertakings		-		-	
		<u></u>		<u></u>	
Net current assets			5		5
Net Assets			<u>34,621</u>		<u>34,621</u>
Capital and reserves					
Called up share capital	14		25,075		25,075
Profit and loss account	12		9,546		9,546
			<u>34,621</u>		<u>34,621</u>
Shareholders' funds			<u>34,621</u>		<u>34,621</u>

The financial statements on pages 9 to 25 were approved by the directors on 20 March 2014

and were signed on its behalf by



Paul E Thilo

Date 20 March 2014

CORNERSTONE INTERNATIONAL HOLDINGS LTD

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1 Basis of preparation

The Group's financial statements, which consolidate the financial statements of the Company and its wholly owned subsidiary undertakings, have been prepared in accordance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as applicable to insurance groups except for the matter described in note 2(h). The balance sheet of the parent company is prepared in accordance with the provisions of the Companies Act 2006 as applicable to insurance groups. The financial statements have also been prepared in accordance with United Kingdom applicable accounting standards, and comply with the revised Statement of Recommended Practice issued in December 2005 (amended in 2006) by the Association of British Insurers except for the matter described in note 2(h).

The results of all subsidiary undertakings are included in the consolidated accounts. The accounts of all Group companies are made up to 31 December. As permitted by section 408 of the Companies Act 2006, no profit and loss account of the parent company is presented.

2 Principal accounting policies

The following accounting policies have been applied consistently in preparing the Groups' financial statements.

(a) Basis of accounting for underwriting activities

All business is accounted for on an annual basis.

(b) Significant accounting estimates and assumptions

The preparation of the Group financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date.

The key assumptions concerning estimation and uncertainty at the balance sheet date are set out below.

Actuarial estimates have been made both for the expected ultimate cost of claims reported at the balance sheet date and for the ultimate cost of claims incurred but not yet reported (IBNR) at the balance sheet date. It can take a significant period of time before the ultimate claims cost be established with certainty for some types of policies.

The main assumption underlying these actuarial estimates is that a company's past claims development experience can be used to project future claims development and hence ultimate claims cost. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant claim types. Large claims are usually separately addressed. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking into account all of the uncertainties involved.

CORNERSTONE INTERNATIONAL HOLDINGS LTD

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2013

(c) Premium income

Written premiums are reported gross of commissions and net of Insurance Premium Tax

Direct business premiums are received and reported monthly in advance in the UK, France, Germany, Italy and the Nordic Region. For these policies, premium receipts are received evenly through the month, consequently the provision for unearned premiums comprises half of the gross written premiums for the last month.

For direct business premiums marketed in Spain the majority of new policies were written as annual policies and premiums reported annually although still receivable monthly. The provision for unearned premiums for annual policies comprises the proportion of premiums written which is to be earned in the following financial year on straight line basis over the estimated remaining term of the policy.

Indirect business premiums are received and reported monthly in advance. New policy issues and premium receipts are received evenly through the month, consequently the provision for unearned premiums comprises half of the gross written premiums for the last month.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums they relate to.

(d) Claims

Claims incurred consist of claims and claims handling expenses paid during the financial year, together with the movement in the provision for outstanding claims.

The provision for outstanding claims is an estimate of the cost of settling all claims incurred but unpaid at the balance sheet date, reported and not reported, and related claims handling expenses. Anticipated reinsurance recoveries are disclosed separately as assets.

(e) Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, where material, in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences will reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

(f) Investment income

Investment income is accounted for on a receivable basis. Interest is accrued up to the balance sheet date in the profit and loss account – non-technical account.

(g) Investments

Investments are shown at mid-market value on the balance sheet date. Unrealised losses or gains since purchase or the previous valuation are taken to the non-technical account.

Investments in subsidiary undertakings are valued at the lower of cost and net realisable value.

CORNERSTONE INTERNATIONAL HOLDINGS LTD**NOTES TO THE FINANCIAL STATEMENTS (continued)***For the year ended 31 December 2013***(h) Acquisition costs**

Marketing costs: - The group writes monthly and annually renewable policies. Since policies generally remain in force for periods considerably in excess of these periods, the directors consider that the financial statements would not show a true and fair view if the acquisition costs were deferred on a basis compatible with that used for unearned premiums. They have therefore been amortised at a rate based on the pattern of anticipated margins in respect of these policies. Acquisition costs are not deferred to the extent that available future margins are not expected to cover them. This treatment is a departure from the requirements of Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). If the directors were to have adopted the requirements of Schedule 3, the financial statements would have stated a Deferred Acquisition Cost (DAC) asset of £2,221,000 (2012 £3,899,000) and a current debit in the profit and loss account of £1,678,000 (2012 £154,000 debit). By adopting the policy as stated in the financial statements, a DAC asset of £9,378,000 (2012 £14,191,000) and a current debit in the profit and loss account of £4,813,000 (2012 £1,230,000 debit) have been recognised. If Schedule 3 of SI 2008/410 had been applied it would have resulted in an increase in current profits by £3,135,000 (increase in 2012 £1,076,000). The effect on profit stated above is pre-tax. The increase in profit for 2013 of £3,135,000 (increase in 2012 £1,076,000) would have resulted in a tax debit in the current year of £729,000 (tax debit in 2012 £264,000).

Commission - An equivalent proportion of the commission costs associated with the collection of the December 2013 premiums that are treated as unearned, is deferred to the following month, together with the associated premiums.

A number of business partners have received upfront commission payments that are released over the period of the contract.

This treatment is a departure from the requirements of Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410). If the directors were to have adopted the requirements of Schedule 3, the financial statements would have stated a Deferred Acquisition Cost (DAC) asset of £460,000 (2012 £594,000) and a current debit in the profit and loss account of £134,000 (2012 £124,000 credit). By adopting the policy as stated in the financial statements, a DAC asset of £4,308,000 (2012 £6,912,000) and a current debit in the profit and loss account of £2,604,000 (2012 £2,121,000 debit) have been recognised. If Schedule 3 of SI 2008/410 had been applied it would have resulted in an increase in current profits by £2,470,000 (increase in 2012 £1,995,000). The effect on profit stated above is pre-tax. The increase in profit for 2013 of £2,470,000 (increase in 2012 £1,995,000) would have resulted in a tax debit in the current year of £637,000 (tax debit in 2012 £489,000).

(i) Depreciation

Depreciation is provided to write off the whole cost of tangible assets by equal instalments over their estimated useful economic lives.

Furniture	10 years
Computer and office equipment	18 months – 3 years
Leasehold Improvements	Over contractual term of lease
Assets under construction are not depreciated until they are brought into use	

(j) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. 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. Tax charges and credits that are directly attributable to exchange differences are also dealt within the reserves.

CORNERSTONE INTERNATIONAL HOLDINGS LTD**NOTES TO THE FINANCIAL STATEMENTS (continued)***For the year ended 31 December 2013***(k) Pension costs**

The Company's subsidiary AEGON Direct Marketing Services Europe Ltd has a defined contribution scheme and contributes to an independent money purchase pension for each employee

Contributions made by the Group are charged to the technical account as they are incurred, in accordance with the provisions of FRS 17

Please see note 20 regarding Transamenca UK Subsidiaries Pension and Life Assurance scheme

(l) Operating leases

The costs relating to operating leases are charged to the profit and loss account on a straight line basis over the life of the lease

3 Segmental analysis

The Group writes only one material accounting class of business, Accident and Sickness (classes 1 and 2) Policies are a combination of monthly and annual renewable policies with 64% of the business written relating to policy holders outside the United Kingdom (2012 64%)

	Gross Written Premium					
	2013			2012		
	Direct	Reinsurance	Total	Direct	Reinsurance	Total
	£000	Accepted	£000	£000	Accepted	£000
		£000			£000	
UK	19,317	-	19,317	21,640	-	21,640
Rest of Europe	34,191	1,061	35,252	37,684	1,080	38,764
Total	53,508	1,061	54,569	59,324	1,080	60,404

All risks are underwritten in the UK

4 Reinsurance balance

The reinsurance balance was £97,000 net cost (2012 £175,000 net cost)

5 Staff numbers and costs

The average number of persons employed by the Group (excluding non executive directors) during 2013 was 91 (2012 93), all of whom are employed in a range of technical, managerial and administrative roles

The aggregate payroll costs were	Note	2013	2012
		£000	£000
Wages and salaries		7,853	7,015
Severance costs		3,352	-
Social security costs		933	1,124
Other pension costs	20	305	396
		12,443	8,535

6 Remuneration of directors

The directors of Cornerstone International Holdings Ltd are also directors of fellow Group companies. The directors received remuneration of £315,000 (2012 £1,310,000) and one director (2012 3) was a member of a defined contribution pension scheme. The directors do not believe it is practicable to apportion this amount between their services as directors of the Company and their services as directors of fellow Group undertakings. Full details of directors' emoluments are disclosed in the accounts of AEGON Direct Marketing Services Europe Ltd.

CORNERSTONE INTERNATIONAL HOLDINGS LTD**NOTES TO THE FINANCIAL STATEMENTS** *(continued)**For the year ended 31 December 2013***7 Technical provisions and deferred acquisition costs**

(a) Provision for unearned premiums	2013		2012	
	£000	£000	£000	£000
Balance at 1 January 2013	6,332		6,637	
Change in the provision for the year	(1,793)		(305)	
Balance at 31 December 2013		4,539		6,332
(b) Deferred acquisition costs	2013		2012	
	£000	£000	£000	£000
Marketing costs				
Balance at 1 January 2013	14,191		15,421	
Marketing expenditure during the year	11,007		16,002	
Amortisation for the year	(15,820)		(17,232)	
Balance at 31 December 2013		9,378		14,191
Commission				
Balance at 1 January 2013	6,912		9,033	
Commission paid during the year	1,001		1,039	
Released during the year	(3,605)		(3,160)	
Balance at 31 December 2013		4,308		6,912
Total deferred acquisition costs at 31 December 2013		13,686		21,103
(c) Provision for outstanding claims	2013		2012	
	£000	£000	£000	£000
Gross amount brought forward	3,218		3,789	
Amounts utilised during the year	(2,540)		(3,086)	
Prior year provision carried forward	678		703	
Gross provision for the year	2,647		2,515	
Gross provision for outstanding claims at year end		3,325		3,218
Reinsurers' share of provision brought forward	(2)		(2)	
Reinsurers' share utilised during the year	-		-	
Reinsurers' share of prior year provision carried forward	-		-	
Reinsurers' share of provision for the year	-		-	
Reinsurers' share of provision for outstanding claims at year end		(2)		(2)
Net provision for outstanding claims at year end		3,323		3,216

CORNERSTONE INTERNATIONAL HOLDINGS LTD**NOTES TO THE FINANCIAL STATEMENTS (continued)***For the year ended 31 December 2013***8 Net operating expenses**

	2013	2012
	£000	£000
Acquisition costs		
Marketing costs	11,007	16,002
Commission	1,001	1,039
Premium commission	6,387	9,230
Change in deferred acquisition costs	7,417	3,351
Administrative expenses	33,399	21,863
	<u>59,211</u>	<u>51,485</u>

9 Restructuring costs

Restructuring costs have been incurred and accrued during the year ended 31 December 2013 totalling £3,441,000 (2012 nil). This amount is in respect of the settlement costs for employees and closure of the offices in Spain Italy and France. The accruals made represent current best estimates and the assumption is that the matters will be settled within the next twelve months.

10 (Loss)/Profit on ordinary activities before tax

(Loss)/Profit on ordinary activities before tax is stated after charging	2013	2012
	£000	£000
Operating leases	1,173	845
Depreciation	258	368
Amortisation of acquisition costs	15,820	17,232
Amortisation of commission costs	3,605	3,160
Auditor's remuneration Audit services	90	55
- Financial Statements		
- Regulatory Return	6	6
Auditor's remuneration Holding company		
Audit services - Financial Statements	<u>8</u>	<u>5</u>

Of the total recognised loss for the year of £11,371,000 (2012 profit of £1,693,000) shown in the consolidated profit and loss account, a loss of £28 (2012 loss of £1,193,000) is dealt within the financial statements of the Company.

11 Taxation

(a) Taxation on (loss)/profit on ordinary activities	2013	2012
Analysis of tax (credit)/charge in year	£000	£000
Current tax		
UK corporation tax	2	822
Foreign tax suffered	99	63
Prior year adjustment	9	(10)
	<u>110</u>	<u>875</u>
Deferred tax		
Origination of timing differences	(2,313)	63
Tax rate change	320	(2)
Prior year adjustment	-	(3)
Total tax (credit)/charge	<u>(1,883)</u>	<u>933</u>

CORNERSTONE INTERNATIONAL HOLDINGS LTD**NOTES TO THE FINANCIAL STATEMENTS (continued)***For the year ended 31 December 2013***11 Taxation (continued)****(b) Tax reconciliation**

(Loss)/Profit before tax per accounts	<u>(12,756)</u>	<u>3,764</u>
Current tax (credit)/charge		
Expected tax (credit)/charge at 23 25% (2012 24 5%)	(2,966)	922
Prior year adjustment	-	(10)
Expenses not deductible for tax purposes	795	20
Other timing differences	59	8
Depreciation in excess of capital allowances	41	-
Capital allowances in excess of depreciation		(70)
Foreign tax suffered	15	-
Unutilised losses	2,284	5
Total current tax charge	<u>110</u>	<u>875</u>

The Group has total unutilised tax losses £9,823,000 of which £9,785,000 is from SIIL. A deferred tax asset has been established for these losses as recovery from future profits is likely within 3 years £38,000 (2012 £19,000) is from its German entity in 2013. No deferred tax asset has been established for these losses as recovery from future profits is not sufficiently certain.

12 Share Capital and Reserves

Cornerstone Group	Share Capital	Profit & Loss Account	Total	
	2013 £000	2013 £000	2013 £000	2012 £000
Balance brought forward	25,075	19,123	44,198	42,505
Retained (loss)/profit for the year	-	(10,873)	(10,873)	2,831
Translation differences on foreign currency	-	(498)	(498)	(1,138)
Balance carried forward	<u>25,075</u>	<u>7,752</u>	<u>32,827</u>	<u>44,198</u>

Cornerstone International Holdings Ltd

	Share Capital	Profit & Loss Account	Total	
	2013 £000	2013 £000	2013 £000	2012 £000
Balance brought forward	25,075	9,546	34,621	35,814
Retained (loss) for the year	-	-	-	(1,193)
Balance carried forward	<u>25,075</u>	<u>9,546</u>	<u>34,621</u>	<u>34,621</u>

13 Dividends

No dividend is proposed for the year ending 31 December 2013 (2012 £Nil)

CORNERSTONE INTERNATIONAL HOLDINGS LTD**NOTES TO THE FINANCIAL STATEMENTS (continued)***For the year ended 31 December 2013***14 Called up share capital**

	2013	2012
	£000	£000
Allotted, called up and fully paid		
25,075,293 ordinary shares of £1 each	<u>25,075</u>	<u>25,075</u>

15 Other financial investments

	Market value		At Cost	
	2013	2012	2013	2012
	£000	£000	£000	£000
Debt securities and other fixed income securities listed on recognised stock exchanges	<u>23,652</u>	<u>23,920</u>	<u>24,044</u>	<u>23,321</u>

16 Other Debtors

	2013	2012
	£000	£000
Rent deposit	224	259
Other debtors	40	14
Deferred tax	1,967	79
Corporation tax	571	-
	<u>2,802</u>	<u>352</u>

The deferred tax asset is made up as follows

	2013	2012
	£000	£000
Decelerated capital allowances	6	71
Tax losses carried forward	<u>1,961</u>	<u>8</u>
	<u>1,967</u>	<u>79</u>

CORNERSTONE INTERNATIONAL HOLDINGS LTD**NOTES TO THE FINANCIAL STATEMENTS (continued)***For the year ended 31 December 2013***17 Tangible fixed assets**

	Leasehold Improvements	Assets Under Construction	Furniture Fittings & Equipment	Total
	£000	£000	£000	£000
At Cost				
At 1 January 2013	534	2,425	1,230	4,189
Transfer	-	(87)	87	-
Additions	27	883	81	991
Disposal	(176)	-	(302)	(478)
Foreign exchange translation	3	-	3	6
At 31 December 2013	388	3,221	1,099	4,708
Depreciation				
At 1 January 2013	386	-	999	1,385
Charge for year	62	-	196	258
Disposal	(111)	-	(227)	(338)
Foreign exchange translation	2	-	2	4
At 31 December 2013	339	-	970	1,309
Net book value at 31 December 2013	49	3,221	129	3,399
Net book value at 31 December 2012	148	2,425	231	2,804

18 Creditors

	2013 £000	2012 £000
Corporation tax	-	211
Amounts due to other Group undertakings	1,158	864
Other taxes and social security	1,102	1,469
Other	172	156
	2,432	2,700

CORNERSTONE INTERNATIONAL HOLDINGS LTD**NOTES TO THE FINANCIAL STATEMENTS (continued)***For the year ended 31 December 2013*

19 Provisions for other risks	Regulatory/Legal	Deferred Tax	Total
	£000	£000	2013
			£000
Balance as at 1 January 2013	969	105	1,074
Additions	10,491	-	10,491
Released	(969)	(105)	(1,074)
Balance as at 31 December 2013	<u>10,491</u>	<u>-</u>	<u>10,491</u>

The regulatory/legal provision is in respect of ongoing costs to resolve issues and for legal disputes. A provision has been made for an estimated amount of the expected fine to be received from the FCA, and the expected cost in relation to the action plan to resolve findings from the FCA review, to enhance and strengthen the company's TCF principles. The provision made represents current best estimates and the assumption is that the matters will be settled within the next twelve months.

The deferred tax liability is made up as follows

	2013	2012
	£000	£000
Accelerated capital allowances	-	105
	<u>-</u>	<u>105</u>

20 Pension costs

The balance payable to the pension providers at year end was £20,000 (2012 £35,000 payable)

The pension cost charged to profit and loss account amounted to £305,000 (2012 £396,000)

21 Transamerica Pension Scheme

On 31 March 2005 AEGON Direct Marketing Services Europe Ltd became Principal Employer for Transamerica UK Subsidiaries Pension and Life Assurance Scheme, Scheme registration number 0143475

The winding-up of the Scheme was completed during 2008 although certain run off costs may still be incurred. However it is expected that the balance retained in the scheme bank account will be adequate to meet these costs. There is not expected to be any residual liability for either the Group or Transamerica Corporation in relation to the Scheme.

Transamerica Corporation, a fellow subsidiary undertaking of AEGON N.V. incorporated in the United States of America, has agreed to indemnify and keep AEGON Direct Marketing Services Ltd indemnified against all demands, claims, liabilities, losses, costs and expenses whatsoever in connection with the Scheme.

CORNERSTONE INTERNATIONAL HOLDINGS LTD**NOTES TO THE FINANCIAL STATEMENTS (continued)***For the year ended 31 December 2013***22 Investments in subsidiaries**

The Company holds shares in three fully owned subsidiaries, Stonebridge International Insurance Ltd, a company registered in England and Wales that carries on accident and sickness insurance in the United Kingdom and Europe and in AEGON Direct Marketing Services Europe Ltd, a company that is also registered in England and Wales and that carries out marketing activities on behalf of Stonebridge International Insurance Ltd and other insurers. Erfahrungsschatz GmbH, is a company incorporated and registered in Germany

	Erfahrungsschatz GmbH	Stonebridge International Insurance Ltd	AEGON Direct Marketing Services Ltd	Total
	£000	£000	£000	£000
At 1 January and 31 December 2013	-	18,906	15,710	34,616

23 Commitments

There are commitments in respect of capital expenditure of £422,000 for a new policy administration system entered into on 1 April 2011. Annual commitments under non-cancellable operating leases are

	Land and Buildings	
	2013	2012
	£000	£000
Operating leases which expire		
Within one year	21	13
Two to five year	615	645
Over five years	-	101
Total	636	759

The operating lease commitment relating to the Group's UK rental of office premises extends 10 years from March 2010 and has a break clause after 5 years (March 2015). The annual commitment for the Group is £383,000.

24 Contingent liabilities

In the normal course of its business, the Group is subject to matters of litigation or dispute or regulatory uncertainty. While there can be no assurances at this time, the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Group.

25 Cash flow statement

The Company has not prepared a cash flow statement as it is a wholly owned subsidiary of AEGON DMS Holding B.V., which is itself a wholly owned subsidiary of AEGON N.V. which prepares financial statements including a consolidated cash flow statement.

CORNERSTONE INTERNATIONAL HOLDINGS LTD

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31 December 2013

26 Related Party transactions

As the Company is a wholly owned subsidiary of AEGON N V the Company has taken advantage of the exemption allowed in FRS 8 and, therefore has not disclosed transactions or balances with entities which form part of the Group. There are no other related party transactions to disclose.

The smallest group in which the results of the Company are consolidated is that headed by Cornerstone International Holdings Ltd, a company registered in England and Wales.

27 Ultimate parent company

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. The consolidated financial statements are available to the public and may be obtained from:

AEGON N V
50, PO Box 202,
2501 CE The Hague
The Netherlands