STM Life Assurance PCC Plc

Solvency and Financial Condition Report ('SFCR')

for the financial year ended 31 December 2022

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Executive Summary

Introduction

This report is the Solvency and Financial Condition Report (SFCR) of STM Life Assurance PCC Plc ('STM Life' or 'the Company') for the reporting period ended 31 December 2022, pursuant to the Gibraltar Financial Services (Insurance Companies) Regulations 2020.

Business and Performance

STM Life was established in Gibraltar in 2008 and is part of STM Group Plc, a cross-border financial services group, traded on AIM, a market operated by the London Stock Exchange.

STM Life is an insurance company conducting long-term life business and is regulated and licensed by the Gibraltar Financial Services Commission ('GFSC'). The Company is structured as a Protected Cell Company subject to the provisions of Gibraltar's Protected Cell Companies Act 2001. This means that STM Life may create legally recognised 'cells' within the Company in order to segregate and protect each policyholder's assets. Each cell has its own designation (the policy number), and it is the duty of the Directors to keep the assets and liabilities of each cell separate and therefore accounted for separately.

STM Life's aim is to provide products and services that enable its policyholders to maintain and grow their assets. This service is delivered in a timely, personal, and friendly manner using technology as appropriate.

The Company is licensed to write and administer contracts of insurance as follows:

- Life & Annuity contracts (Class I)
- Unit-linked contracts (Class III)
- Capital Redemption contracts (Class VI)

STM Life utilises independent financial intermediaries for the introduction of its business. The Company does not offer financial, tax or investment advice.

During 2022 new premiums of £0.3m were written (compared to £7.8m in 2021) with claim payments being £14.1m (compared to £19.6m in 2021).

Acquisition and administration expenses incurred by the Company to acquire and subsequently administer the policies were £1.6m (compared to £1.8m in 2021).

Realised loss on investments for 2022 was £2.8m compared to gains of £0.2m in 2021. Unrealised losses in 2022 totalled £22.7m compared to gains of £26.8m in 2021.

System of Governance

STM Life's corporate governance framework ensures that the interests of shareholders, policyholders, and other stakeholders are appropriately protected. The Company has adopted the 'Three Lines of Defence' model to ensure appropriate segregation of roles and responsibilities.

The Board of Directors is responsible for setting the business objectives and strategic direction, supervising the operations, ensuring compliance with legal requirements, and for implementing an effective risk management system. The Board has established three sub-committees to deal with certain functions in detail:

- Risk and Compliance Committee,
- Audit Committee, and
- Product Governance Committee.

For further details see **Section B. System of Governance.**

Capital Management

The Solvency Capital Requirement ('SCR') for STM Life is calculated using the Standard Formula.

The Risk Management Function works closely with the Actuarial Function to ensure that:

- the assessment of the capital needs is informed by the material risks in the risk register and
- as part of the Own Risk and Solvency Assessment the risks not covered in the standard formula SCR are identified and it is considered whether additional capital would be required as a quantitative mitigation.

STM Life has maintained own funds in excess of the Minimum Capital Requirement (MCR) and SCR throughout the reporting period.

The solvency position as at 31 December 2022 was as follows:

	Capital Requirement	Eligible Own Funds	Solvency Ratio %
SCR	£4.7m	£10.0m	213.8%
MCR	£3.2m	£10.0m	313.5%

The solvency ratio of 213.8% has increased significantly since 31 December 2021 when it stood at 160.8%.

The valuation for solvency purposes of the assets, technical provisions and other liabilities is documented in **Section D**.

Gibraltar Financial Services Regulations require that the Quantitative Reporting Templates (QRTs) are disclosed alongside the SFCR and the QRTs as at 31 December 2022 are published on the Company's website.

Risk Profile

Material risks based on their capital requirements

The material risks based on their SCR contribution are Life Underwriting Risk, Market, and Operational Risk:

Life Underwriting Risk

Most of the business of STM Life does not carry any significant insurance risk as there is little additional death benefit over and above the unit fund at time of death for most products. Where a product does carry a higher level of death benefit, underwriting limits are approved and monitored. The largest elements of Life Underwriting Risk are Expense risk and Lapse risk.

Market Risk

Investment risks are largely transferred to policyholders through the use of unit-linked products. Most of the retained Market risk relates to:

- Currency risk, which arises from collecting fewer charges than anticipated from those policies with initial premiums and assets which are not denominated in GBP following an appreciation in GBP against the currencies that non-GBP policies are expressed in.
- Equity Type 1 risk, which arises from collecting fewer charges than anticipated (on those unit-linked policies where charges are expressed as a percentage of policy value) following an equity shock. A significant fall in market values of the unit-linked assets may lead to lower charges being collected than anticipated.

Operational Risk

For STM Life's unit-linked business, the main elements of the calculation of Operational risk are the expenses of running the business with Operational risk calculated as 25% of these expenses using the standard formula.

Operational risks also represent a significant proportion of the top risks in the risk register. As a relatively small company STM Life relies on a number of key employees, as well as a number of service providers (predominantly affiliated companies, but also an external provider of asset management services). IT Systems adequacy and MI reporting are also key operational risks. The controls mitigating operational risks are summarised in **section C.5** below.

Credit Risk

There are credit and concentration limits for the investment of shareholders' funds. This risk is not material for the Company.

Material risks which are not in scope of the SCR

The material risks which are outside the scope of the SCR are documented in **Section C.6**. The key risks are:

Strategic Risk

Most of the top risks in the risk register are categorised as Strategic. STM Life does not explicitly allocate capital for this type of risk, however the stress and reverse stress testing considers the impact of certain extreme events relating to Strategic risks that could cause significant strain on the Company.

Further details are provided in **Section C.6.1 Strategic Risk.**

Group Risk

Group risk is a material risk for STM Life because a number of key functions are outsourced to affiliated companies within STM Group. There is also a loan provided to STM Group. Further details on Group Risk are provided in **Section C.6.2. Group Risk.**

Stress and Scenario Testing

The results of stress testing and scenario analysis for the material risks in the SCR are documented in **Section C7**. The overall conclusion is that STM Life is well placed to withstand the stresses.

A. Business and Performance

A.1 Business and Performance

A.1.1 The Company

STM Life is a Protected Cell Insurance Company registered in 2008. The Company number is 100244.

The Company's registered office and operating address is:

Montagu Pavilion

8-10 Queensway

Gibraltar

GX11 1AA

The Company is authorised and regulated by the GFSC.

PO Box 940

Suite 3, Ground Floor Atlantic Suites

Europort Avenue

Gibraltar

Tel:+350 20040283

Fax:+350 20040282

E-Mail: information@fsc.gi

The Company's external auditor is:

Deloitte Limited

Merchant House

22/24 John Mackintosh Square

Gibraltar

GX11 1AA

STM Life is a private company limited by shares. The Company's immediate parent company is STM Fidecs Limited, and the ultimate owner is STM Group Plc.

STM Life is regulated as a solo insurance entity. The Company has a branch established in the United Kingdom.

A.1.2 Products

The Company is authorised to write and administer contracts of insurance as follows:

- Life and Annuity contracts (Class I)
- Unit-linked life assurance contracts (Class III)
- Capital Redemption contracts (Class VI)

Until the end of 2020 STM Life had freedom to provide its financial products and services within the EU and was able to passport its services into a number of Member States. Since the end of the BREXIT transition period on 31 December 2020, STM Life has been unable to sell its products in certain EU jurisdictions where it had passport rights, however it continues its sales in the UK and the rest of the world.

Post BREXIT, STM Life has been given permission to service its existing in force EU policyholders.

A.1.3 Significant Business Events

- The previous Managing Director, Grant Armstrong, left the business in August 2022 and has been replaced as Acting Managing Director, subject to Regulatory approval by Peter Gatenby.
- The whole of the Compliance team left the Company during 2022 and a new Compliance function comprising of two in-house members of staff supported by an external provider of Compliance services, Kroll, and a Head of Compliance, David Hatch are now in situ.
- A project commenced during the final quarter of 2022 to develop a new Portfolio Bond to be sold in the UK market.

A.2 Underwriting Performance

The table below shows the premiums received, claims and expenses by line of business:

	2022 £'000	**2021** £'000
New Gross Premiums	324	7,751
Gross Claims (including annuity payments)	(14,112)	(19,583)
Expenses (Acquisition & Administration)	(1,626)	(1,816)

Premiums in 2022 were lower than in 2021 due to there being no Class I annuities or unit-linked policy sales. Premiums received were top-ups from existing policies.

Claims represent surrenders of unit-linked bonds.

A.3 Investment Performance

The investment return for 2022 compared to 2021 was as follows:

	2022 £'000	**2021** £'000
Investment returns attributable to unit-linked policyholders	(22,747)	26,971
Investment returns on assets held to meet insurance liabilities	(2,806)	24
Investment return	**(25,553)**	**26,995**

The investment income and investment performance during 2022 on assets held to meet the non-unit-linked insurance liabilities of the Company are as follows:

	2022 £'000	**2021** £'000
Loans & Receivables	24	24
Cash & Other Investments	25	-
Total	**49**	**24**

A.4 Other Material Income and Expense

A.4.1 Overview of Revenue

The principal activity of the Company is that of the provision of life assurance business. The table below provides an analysis of the Company's revenue on a GAAP basis:

Revenue	2022 £'000	2021 £'000
Net fee income from authorised activities	2,008	1,676
Income from investments	25	-
Income from Group undertakings	24	24
Total Revenue	**2,057**	**1,700**

A.4.2 Overview of Expenses

The table below provides an analysis of the Company's other operating and administrative expenses on a GAAP basis.

	2022 £'000	2021 £'000
Regulatory costs	90	78
Salaries	479	543
Social insurance	43	42
Other employment costs	17	22
Directors' fees	130	105
Legal and professional costs*	653	553
Audit fees	55	55
Establishment costs	92	68
Other costs	350	350
Total Expenses	**1,909**	**1,816**

* These expenses include legal costs, professional fees, PI&DO insurance, actuarial fees, tax adviser fees, and dealing charges.

B. System of Governance

B.1 Governance Structure

STM Life has established an effective corporate governance framework, which is appropriate and proportionate for its size, nature, complexity, and risk profile.

STM Life's Board is currently comprised of one independent non-executive director and one executive director. The directors collectively have the appropriate balance of skills, knowledge, and experience in the financial services industry. One further non-executive director has been approved by the GFSC and will soon be joining the Board and one further executive director is waiting for GFSC approval. In setting its governance arrangements, the Board either reserves decision making powers to itself, or delegates these powers to a Board approved sub-committee or the Managing Director.

The responsibilities of the Board and Committees are summarised in **Section B.1.2** below.

The responsibilities of the key functions are documented in the respective sections below.

The material changes in the System of Governance over the reporting period are as follows:

- One iNED resigned from the Board in May 2022

- One iNED joined the Board in May 2022 and assumed the role of Chairman of the Board
- One executive Director (the Managing Director) resigned from the Board in September 2022
- One ex-executive Director assumed the role of Acting Managing Director subject to Regulatory approval in September 2022
- One iNED resigned from the Board in November 2022
- The Compliance and Risk Function holders resigned during 2022 and their replacements assumed the roles subject to Regulatory Approval
- The Actuarial Function Holder resigned in September 2022 to assume the role of MD and an external AFH was appointed subject to Regulatory Approval

B.1.1 Three Lines of Defence

STM Life has adopted the 'Three Lines of Defence' model to ensure appropriate segregation of roles and responsibilities across the Company:

The First Line of Defence is performed by the business functions. Their role is to:

- Identify and monitor material risks, implement effective control activities to reduce these risks.
- Perform risk and control self-assessment and record the results in the risk register on a quarterly basis.
- Propose actions to further reduce risks and improve the controls; implement the actions assigned to them.
- Ensure that recommendations for control improvements (from Board and committees, internal audit, or Compliance function reports) in their respective area are implemented.
- Communicate to the Risk Management Function any emerging risks from their respective areas.
- Report any loss events and near miss incidents; co-operate with management on incident investigations.
- Ensure that processes and controls are documented in policies, procedures, flowcharts, and manuals. Ensure that the procedures are followed.

The Second Line of defence is performed by the Risk Management and Compliance functions. They provide assurance to the Board that risks are appropriately identified and mitigated by the business functions, and that internal policies are adhered to. The Actuarial Function plays a role in the Second Line of defence as well by contributing to the Risk Management system (with respect to the risk modelling and the ORSA). Further details of the Second Line of Defence functions are provided in **Section B.3, B.4.2** and **B.6**.

The Third Line of Defence is performed by the Internal Audit function. It provides independent assurance to the Board on the design and operation of the risk management and internal controls frameworks. Further details are provided in **Section B.5.**

The Second and Third Line of Defence functions are designed to be independent from the First Line of Defence.

B.1.2 Responsibilities of Board and Committees

The key responsibilities of the Board of Directors are:

- Approve the strategy, business plan, financial statements, and Solvency submissions.
- Oversee performance against the business plan.
- Ensure that there is an effective governance structure and internal controls system.
- Ensure that there is an effective risk management framework; define the risk strategy and risk appetite; approve the risk management and internal control policies.
- Ensure that Senior Management takes necessary steps to identify, measure, monitor and control

risks to the Company.

- Review the capital requirements relative to the business strategy and risk profile, such that they are assured as to the adequacy of the Company’s solvency position.
- Ensure compliance with statutory and regulatory obligations.
- Monitor the preparedness of the Company to cope with major disruption by ensuring that business continuity and disaster recovery plans are up to date and regularly tested.
- Oversee the performance of the outsourced functions.

The Board meets at least four times per year.

The Board has delegated authority to a number of committees, which assist the Board in delivering its responsibilities.

The key responsibilities of the committees are summarised below.

Risk and Compliance Committee

The Risk and Compliance Committee assists the Board in its leadership and oversight of risk across the Company. This includes the understanding and, where appropriate, optimisation of current and future risk strategy, risk appetite, risk management framework, and the promotion of a risk awareness culture throughout the Company. The Committee also assists the Board in fulfilling its oversight responsibilities in respect of the integrity of the Company’s systems of internal control.

The Committee currently consists of two Non-Executive Directors (one of them independent), and the Managing Director. One of the NEDs chairs the Committee. The Compliance Function holder and the Head of Risk attend meetings of the Committee by invitation.

The responsibilities of the Risk and Compliance Committee are to:

- Ensure that independent, effective, and sufficiently resourced Risk Management and Compliance functions are established and that these functions operate effectively as the second line of defence.
- Review and recommend to the Board for approval the risk management, compliance, and governance policies.
- Make recommendations to the Board concerning the Company’s overall risk appetite, tolerance, and strategy.
- Monitor, and advise the Board on the current risk exposures of the Company and future risk strategy.
- Monitor the effectiveness of the Company’s internal controls framework and risk management system.
- Review reports on material risks and key risk indicators. Ensure that appropriate actions are taken to manage the risk profile.
- Monitor the effectiveness of internal controls. Approve actions to improve the controls and reduce the risks. Ensure that controls mitigating significant risks are regularly audited.
- Identify and assess the potential impact of emerging risks.
- Monitor the risk events (losses and near misses).

Audit Committee

The Committee consists of two Non-Executive Directors (one of them independent). One of the iNEDs chairs the Committee.

The key responsibilities of the Audit Committee are to:

- Keep under review the accounting policies; assess the adequacy and effectiveness of the Company’s controls over financial reporting.

- Review and challenge where necessary the Company's financial statements (including the actions and judgments of management in relation to them) before submission to the Board.
- Make recommendations to the Board in relation to the appointment of the external auditors, oversee the selection process.
- Discuss with the External Auditors issues such as compliance with accounting standards and any proposals which the external auditors have made in relation to the Company's internal auditing standards.
- Approve the appointment or dismissal of the Internal Audit Function Holder.
- Review the outcome of the internal audit reviews and any resulting recommendations, ensuring appropriate action plans are implemented as a result.
- Monitor and review the Internal Auditor's and external Auditors' independence, objectivity, and effectiveness.
- Review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.
- Review the Company's procedures for detecting fraud.
- Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

Product Governance Committee

The purpose of the Product Governance Committee is to:

- Ensure that the objectives, interests, and characteristics of customers are taken into account when designing new products or making changes to existing products.
- Ensure that all new and existing products meet STM Life's strategic objectives, commercial and technical standards and that any associated risk is evaluated under STM Life's risk appetite framework.
- Ensure compliance with statutory and regulatory obligations relating to new and existing products.

B.1.3 Key Functions

STM Life has established the following key functions:

Key Function	Responsibilities documented in section:
Risk Management Function	**B.3.2**
Compliance Function	**B.4.2**
Actuarial Function	**B.6**
Internal Audit Function	**B.5**

B.1.4 Remuneration Policy

The Company applies the following remuneration principles through its delegation to the Group Remuneration Committee:

- Reward and remuneration will be clear and up to date with the market so that individuals are motivated, and the Company is able to attract and retain key talent.
- Remuneration packages will be competitive and will recognise the relative remuneration in comparable markets.

- Remuneration is structured in a way that does not encourage excessive risk-taking activities.
- Remuneration consists of a fixed salary, pension, and other benefits.
- Currently there are no budgeted bonus (variable compensation) arrangements in place for colleagues in STM Life.

Pension Scheme

STM Life provides an employer sponsored occupational pension scheme to all staff following completion of a successful probationary period. The scheme is a fully authorised (under the Directive for Institutions for Operational Retirement Provision) with the Gibraltar Financial Services Commission. Benefits are provided on a defined contribution basis.

Non-Executive Directors' Fees

Remuneration for Non-Executive Directors comprises a basic fee.

Fees are benchmarked against similar roles in comparable organisations and calculated on an annual rather than a daily basis. However, it is assumed that to fulfil the basic role of a Non-Executive Director, sufficient time and commitment is required each month for review work and attendance at regular Board meetings, the Company's AGM, Special General Meetings where appropriate, other ad-hoc meetings with regulators and advisers as may be required and training courses.

Non-Executive Directors' remuneration is not performance related nor pensionable and Non-Executive Directors do not participate in any incentive plans.

Fees for Non-Executive Directors are proposed by the Group Executive Directors and subject to approval of the Remuneration Committee of STM Group's Board.

Remuneration Committee

STM Group Plc has a Remuneration Committee in place. The Group Head of HR and CEO may be invited to attend the meetings. The Remuneration Committee sets the parameters and framework for Senior Management remuneration across the Group - typically Group Executive members.

Remuneration at the subsidiary level is overseen by local management.

B.2 Fit and Proper

The Company ensures that Board members, senior management, and key function holders (including third-party service providers) comply with the fitness and propriety requirements as defined in the Fit and Proper Policy and summarised below.

Fitness and Propriety Assessment

Assessment of 'Fitness' is the evaluation of the qualifications, skills, knowledge are experience.

Assessment of 'Propriety' is the evaluation of a person's honesty, integrity, reputation, and financial soundness.

Additional enhanced screening requirements and ongoing Fit and Proper requirements are also applied for individuals who fall within the following categories, as required by Solvency II requirements:

- Executive Management;
- Board members; and
- Key Function Holders.

During the recruitment process the following information is taken into account for fit and proper assessment:

- Interviews, case studies, role plays, knowledge and skills tests and other recruitment assessments.
- Employment history and experience e.g., CV.

- Employment and character references.
- Identity verification, financial sanctions checks, and work permit checks.
- Financial services register and Companies House checks.
- Qualifications checks e.g., certificates, membership of professional bodies.
- Background financial checks e.g., credit checks.
- Background criminal checks e.g., disclosure and barring service.
- Background reputational and disciplinary/enforcement checks.
- Regulatory authorisation application form declarations.
- The candidate's openness and co-operation in providing such information when requested.

All staff members (regardless of role) are required under their contract of employment to observe and act in accordance with the Company's Code of Ethics and Conduct.

The Company has a 'Fit and Proper' policy including a Fit and Proper declaration applicable to all key function holders. It requires information in respect of the following matters:

- Financial difficulties, arrangements with creditors, bankruptcy.
- Criminal prosecutions, civil proceedings.
- Complaints.
- Disciplinary matters.
- Business interests.

Board members are expected to collectively possess appropriate qualifications, experience, and knowledge about the following areas:

- Insurance and financial markets.
- Business strategy and business model.
- System of governance.
- Financial and actuarial analysis.
- Regulatory framework and requirements.

B.3 Risk Management Systems Including the Own Solvency and Risk Assessment

B.3.1 Risk Management System

Risk management is a continuous process which allows for an appropriate understanding of the nature and significance of the risks that the Company is exposed to, and the Company's ability to identify, assess, control, and mitigate them. The effective management of risks is essential to the successful delivery of STM Life's business strategy and objectives.

Risk Management is integrated (embedded) within the day-to-day operations and decision-making processes. This is achieved through:

- the consideration and use of risk and capital reports at Board and Committee level when setting business strategy, developing new products, implementing business change projects etc.
- the use of Risk Appetite Statement monitoring reports and Risk Register MI reports for decision making.
- Business functions identifying, assessing, monitoring, and reporting risk exposures.

The risk management strategy is documented and, together with the supporting risk policies, is subject to regular review, update, and approval.

STM Life adopts a 'Three Lines of Defence' approach to managing risk, as documented in **Section B.1**. There are defined roles and responsibilities for the ownership, oversight, and management of risks.

Risk Appetite

The business strategy has been converted into key strategic risk appetite measures which are documented in the Risk Appetite Statement. Risk Tolerances are the metrics used for monitoring each risk appetite category. Actual exposure against tolerance limits is monitored by the Risk Management Function and any risk appetite breach is reported to the Risk and Compliance Committee and the Board.

The Risk Appetite Statement is reviewed and updated annually by the Risk and Compliance Committee and the Board.

Risk Identification, Assessment and Mitigation

The Risk Management Function supports Management and the business in identifying all material risks. Management is responsible for ensuring that there are effective internal controls mitigating each risk.

The material risks are documented in the risk register and are subject to quarterly self-assessment by risk owners who assess the probability of the risk materialising and its impact on the business. The control owners perform quarterly self-assessments of the design and operation of controls. The Risk Management Function provides challenge to the risk and control owners' assessment.

Risk Management Reporting

The Risk and Compliance Committee and the Board review Risk MI reports on a quarterly basis, including outputs from the risk register and the risk appetite assessment. The Risk Management Function ensures that any actions and recommendations from the committee and Board meetings are implemented.

B.3.2 Risk Management Function

The key responsibilities of the function include:

- Develop, implement, and maintain the Risk Management Framework and associated risk policies.
- Monitor the consistency of application and embedding of the risk management framework across the Company.
- Assist the Board in developing the Risk Appetite Statements.
- Identify and assess the impact of emerging risks.
- Provide regular risk reporting to the Board.
- Undertake second line monitoring to assess whether the first line of defence is operating effectively.
- Coordinate the Own Risk and Solvency Assessment processes and prepare the ORSA report.
- Facilitate the stress, scenario, and reverse stress testing.
- Investigate any reported near-misses or loss events.
- Provide advice and training to business functions and the Board on risk and control-related matters.
- Coordinate assurance activities with the Compliance and Internal Audit functions.

The Risk Management Function works closely with the Actuarial Function to ensure that:

- the assessment of the capital needs is informed by the assessment of the material risks, and
- the risks not covered in the standard formula are identified and it is considered whether additional capital is required as a quantitative mitigation.

To ensure independence, the Risk Management Function has a reporting line to the Risk and Compliance Committee.

B.3.3 ORSA

Own Risk Solvency Assessment (‘ORSA’) is defined as the entirety of processes and procedures employed to identify, assess, monitor, manage and report the current and emerging risks that the Company faces (or may face) and to determine the own funds necessary to ensure that overall solvency needs are met at all times.

ORSA informs the Board about the material risks and capital requirements over the coming years thus helping the Board to make strategic decisions.

ORSA Processes

The key processes that form part of the ORSA include:

- Risk appetite/Tolerance statements (and their ongoing monitoring);
- Business planning processes (and ongoing monitoring of the implementation of the plan);
- Risks and controls assessment (documented in the risk register);
- Emerging risk assessment;
- Assessment of the risks that are not covered by the Standard Formula SCR (e.g., Group risk, Strategic risk);
- Consideration as to whether additional capital is required as a quantitative mitigation;
- Assessment of the risk profile vs. the assumptions underlying the Standard Formula;
- Actuarial Function’s assessment of compliance with technical provision requirements over the business planning period and the potential risks arising from the uncertainties connected to the technical provision calculation;
- Stress and scenario testing, and reverse stress tests; and
- Three-year capital projections and solvency assessment.

The Company has determined that the standard formula would be used to calculate the required solvency capital and to assess overall solvency needs.

A three-year base-case projection of the Solvency Balance Sheet and solvency capital requirement position is produced. This is based on a number of key assumptions about the level of new business, economic and demographic risks, insurance risks including mortality, lapses, and future expenses.

These projections are then subjected to a range of stress tests in robust downward scenarios including stresses for lower-than-expected new product sales, worsening mortality, lapses, and expenses over and above assumptions. The results of stress and scenario testing provide an indication of how much capital might be needed to absorb losses should large shocks occur. A range of events that could threaten the Company’s business model (reverse stress tests) are also considered.

The Risk and Compliance Committee are involved in selecting the scenarios, and the Board is responsible for discussing the results and approving any management actions. Further details are provided in **Section C.7.**

ORSA Report

STM Life’s ORSA process operates continuously throughout the year with a full ORSA report produced annually for the Board.

Monitoring of critical metrics from the ORSA is carried out on a quarterly basis through regular risk and capital MI reporting to the Risk and Compliance Committee.

The Risk and Compliance Committee could decide that an ORSA update is required out of the annual cycle and would recommend to the Board a timetable for the completion of the report. The circumstances that could trigger the need for an ORSA outside the regular timescales are documented in the ORSA Policy and Process document.

The ORSA report is subject to independent review by an external actuary, while the ORSA process is subject to independent review by the Internal Audit Function.

Use of ORSA Results

The ORSA results are used for decision making, for example:

- The ORSA results are an integral input to business planning and strategic decision making.
- When developing new products, changing, or discontinuing existing products the Board would consider the impact on the capital and risk position of the Company.
- The results from the ORSA capital projection are used for capital planning to ensure the continued solvency is maintained.
- New risks associated with the business plan can be identified during the ORSA, in which case the risk appetite statement may have to be updated and new procedures and controls for managing the risks will have to be implemented.
- Highlighting risk appetite breaches would require the Board to agree risk-reduction actions, or to decide that the risk appetite tolerance is not appropriate any longer and requires update.

B.4 Internal Control Systems

B.4.1 Internal Control Framework

The internal control framework is designed to:

- Mitigate risks and reduce the likelihood of losses, reputational damage, or other adverse outcomes for the Company.
- Ensure compliance with legal and regulatory requirements.
- Ensure the accuracy of financial, management and regulatory reports.

The control framework includes the following elements:

- Effective corporate governance framework.
- Segregation of duties - applying the 'Three Lines of Defence' model (see **Section B.1.1** for further details).
- Assignment of clear responsibility and authority across the business.
- Training of staff to ensure that they understand their responsibilities in relation to internal controls.
- Regular review and approval of policies, procedures, and terms of reference.
- Prevention of financial crime (fraud and money laundering).
- Monitoring and review of management and financial reports.
- Records keeping.
- IT system and data security controls.
- Safeguarding of assets.

STM Life's Management is responsible for establishing, maintaining, and promoting effective internal controls.

The controls mitigating material risks are documented in the risk register. The design and operational effectiveness of controls are assessed on a quarterly basis and any ineffective controls are reported to the Risk and Compliance Committee, which ensures that actions are taken to address the underlying issues.

Risk events (near-misses or loss events) are recorded and investigated. If they result from control failings Management takes actions to prevent their reoccurrence.

B 4.2 Compliance Function

The Compliance Function is a key function which is approved by the regulator as a controlled function (Compliance Oversight). This key function is held by the Gibraltar Head of Risk and Compliance and the compliance activities are outsourced to STM Fidecs Central Services Limited.

The Compliance Function is established as an independent control function operating under a Terms of Reference and Target Operating Model. The Compliance Function is not engaged in areas of the business which could create a conflict of interest.

The function has access to all information necessary to carry out its responsibilities and is responsible for reporting to Management any breaches or non-compliance with policies, rules, and regulations.

The Compliance Function reports to the Risk and Compliance Committee and the Board on a quarterly basis.

The role and responsibilities of the Compliance Function are documented in the Compliance Manual. The function’s key responsibilities are:

- Advice and guidance–to support the business in respect of regulatory requirements and to make sure that any new regulatory rules are communicated to the relevant business areas.
- Develop compliance policies and procedures.
- Compliance monitoring – to assess the appropriateness of compliance controls and make sure that a monitoring plan is produced and implemented.
- Training – to make sure staff receive regulatory training and information.
- Liaise with the regulator(s) in order to develop and maintain open and cooperative relationships.
- Regulatory reporting– to respond to regulatory requests for information and submit reporting and information as required.

The Compliance Function reports to the Risk and Compliance Committee and the Board on a quarterly basis.

B.5 Internal Audit

B.5.1 Internal Audit Policy

The Internal Auditor performs the Third Line of Defence and provides independent assurance on the effectiveness of the risk management, governance, and internal control systems.

The Internal Audit Function is outsourced to STM Group. The internal auditor has unrestricted access to all areas of the business and has direct access to the Chair of the Audit Committee. The role and responsibilities of the function are documented in the Group Internal Audit Charter.

Audit findings are reported to Management and to the Audit Committee, and feed into the risk assessment process. The Internal Audit Function monitors the implementation of the audit recommendations.

B.5.2 Internal Audit Plan

The Internal Audit Function prepares a risk-based audit plan on an annual basis. The plan ensures that all material risks are subject to a review at least once every five years.

The plan is flexible so that changes can be made during the year as a result of changes in priorities, external conditions, and materiality of risks.

B.6 Actuarial Function

The Chief Actuary is the Key Function Holder of the Actuarial Function. She is a qualified actuary who is a Fellow of the Institute and Faculty of Actuaries and is complying with the specific professional obligations this requires.

The key responsibilities of the Chief Actuary are to:

- Ensure the appropriateness of the methodology, assumptions, systems and controls for actuarial calculations and reports.
- Contribute to the effective risk management system through modelling of risks and actuarial forecasts that form part of the ORSA process.
- Prepare regulatory reports on technical provisions and solvency capital requirements.
- Provide actuarial advice to the Company's senior management and Board.
- Contribute to the stress and scenario testing and reverse stress testing.
- Prepare the Actuarial Function report for the Board on an annual basis.
- Provide actuarial opinion on data quality and underwriting effectiveness.

B.7 Outsourcing

STM Life benefits from the available expertise within STM Group. The Company outsources some of its key functions as follows:

Affiliated Service Providers:	Function / Work performed	Jurisdiction
STM Group Plc	IT Services	UK
STM Group Plc	Human Resource Management	UK
STM Group Plc	Internal Audit Services	UK
STM Group Plc	Product Development, Sales, and Marketing	UK
STM Group Plc and STM Fidecs Central Services	Compliance Services	UK & Gibraltar
STM Fidecs Central Services	Company Secretarial Services	Gibraltar
STM Fidecs Central Services	Finance Function	Gibraltar

The Company applies the Fit and Proper procedures in assessing persons employed by the service provider to perform an outsourced key function.

The Board maintains oversight of the performance of the key outsourced functions.

C. Risk Profile

Risk categories based on their capital impact are as follows:

	2022 £'000	**%**	**2021** £'000	**%**
Life Underwriting Risk	3,509	61.8%	2,574	58.1%
Market Risk	1,505	26.5%	1,712	38.7%
Counterparty Risk	662	11.7%	142	3.2%
Undiversified SCR	**5,677**	**100%**	**4,428**	**100%**
Diversification	(1,281)		(900)	
Basic SCR	**4,396**		**3,528**	

Operational Risk	287		378	
Reported SCR	**4,682**		**3,906**	

The material risks based on their capital contribution are Life Underwriting Risk, Market Risk and Operational Risk. The key risk drivers and the reasons for the changes in the 2022 numbers compared to 2021 are explained in the sections below.

C.1 Insurance Risk

Life Underwriting Risk

Underwriting risk arises when premiums and investment income are insufficient to pay the contractual benefits on a policy or when the actual demographic experience and/or expenses of administering a group of policies is worse than assumed in the calculation of best estimate liabilities.

Reserving risk

Reserving risk arises from the inherent uncertainty surrounding the adequacy of the reserves set aside to cover insurance liabilities. Unit-linked reserves equal the sum of unit reserves and non-unit reserves (in our case the latter is negative for solvency purposes and zero for GAAP accounting purposes).

C.1.1 Risk Assessment

All figures in £'000s.

	2022	**2021**
Risk Category	**Unit-linked**	**Unit-linked**
Expense Risk	2,208	2,118
Lapse Risk	1,804	707
Mortality Risk	161	123
Diversification within risk module	(663)	(374)
Life Risk SCR	**3,510**	**2,574**

Most of the business of STM Life does not carry any insurance risk as there is little additional death benefit over and above the unit fund at time of death for most products.

Where a product does carry a higher level of death benefit then the Chief Actuary is responsible for setting the underwriting limits and for monitoring underwriting practice against these limits.

The approach to valuation of technical provisions is documented in **Section D.2**.

The key risks which are considered are as follows:

Expense Risk

The expense risk calculation involves testing an immediate increase of 10% in expenses that are not fixed and future inflation of expense of 1% per annum above the best estimate inflation assumed.

The per-policy expense in 2022 decreased compared to 2021 as a result of a detailed review of the direct costs incurred by STM Life and the split of expenses between acquisition and renewal following the decision not to proceed with the planned Service Company. The non-unit liability is significantly more negative at the end of 2022 than it was at the end of 2021 and this has the impact of increasing the required risk capital.

The combined effect of the changes mentioned above on the SCR has been a slight increase in the Expense risk.

Lapse Risk

This is the risk that a policyholder lapses or surrenders their policy earlier than expected resulting in a loss to the Company. For most unit-linked contracts, there is a surrender penalty in place for early lapse to recoup acquisition costs and hence the Company is protected against the risk of not recouping these costs. The main Lapse risk that the Company is exposed to is that of higher lapses than expected meaning that charges collected will be lower than expected and hence the difference between charges and costs will be smaller than expected. This leads to a lower-than-expected future profit.

Although the annual lapse rate has risen slightly during 2022 this was not sufficient to suggest that the lapse assumption should be changed, therefore it has remained at 4% per annum.

The increase, in absolute terms, in the non-unit liability has the impact of increasing the Lapse risk. Overall, it is the mass lapse shock which provides the majority of the lapse risk capital requirement which has increased by £1.1m from 2021 to 2022.

Mortality Risk

Where insurance contracts pay out a lump sum on death, the Company is exposed to the risk either that there are more deaths than expected or that policyholders die, on average, sooner than expected.

Mortality risk is not a significant risk for the Company for the following reasons:

- The unit-linked contracts which are life insurance bonds pay a death benefit of 101% of the value of the units with a maximum of the value of the units plus £2,000 or £200. Consequently, the sum at risk for STM Life is very small and the mortality risk is set at zero on grounds of proportionality.
- The rest of the unit-linked contracts are capital redemption bonds with no death benefit.

Longevity Risk

Where insurance contracts pay out benefits which are dependent on survival or which lead to higher claims costs with increased longevity, the Company is exposed to the risk either that there are fewer deaths than expected or that policyholders die, on average, later than expected. This risk is not relevant to the type of unit-linked contracts written by STM Life.

C.1.2 Risk Mitigation

The Company has processes in place to monitor insurance risks:

- Pricing adequacy is regularly assessed.
- The Chief Actuary is responsible for the reserving policy and for informing the Board of the reserving requirements on a quarterly basis.
- Controls are in place to ensure that reserving processes are adequate, and that reserving data is complete and appropriate.
- Early Lapse risk is mitigated by having early surrender charges for the unit-linked policies.
- There is regular monitoring of lapse and expense assumptions.

The Company does not have any reinsurance in place.

C.1.3 Risk Sensitivity

The Company assesses Underwriting and Reserving risks by considering a number of stand-alone stress tests and scenarios affecting material demographic and expense assumptions in its ORSA. The analyses consider the impact of an immediate shock to the starting balance sheet in addition to the impact on its forward-looking assessment of the future balance sheet position. The results are presented in **Section C.7**.

C.2 Market Risk

Market risk can cause the Company to suffer losses as a result of inappropriate investment strategy or unfavourable fluctuations in the financial markets.

C.2.1 Risk Assessment

All figures in £'000s

	2022	2021
Risk Category	**Unit-linked**	**Unit-linked**
Concentration Risk	380	484
Equity Risk	505	705
Interest Rate Risk	780	230
Currency Risk	838	932
Spread Risk	13	190
Diversification within risk module	(1,011)	(987)
Market Risk SCR	**1,505**	**1,554**

For unit-linked business, there was a small reduction in the total Market risk capital requirement in 2022 compared to 2021. Currency, spread, concentration and equity risk reduced whilst interest rate risk increased.

Concentration Risk

Concentration risk tests the resilience of own funds against the diversification of a portfolio of assets.

The main element of Concentration risk for STM Life arises from investing shareholder assets in term deposits and the loan to STM Group.

Equity Type 1 Risk

There is a risk that following a sustained fall in asset values the Company's charges would be lower than budgeted, because charges are expressed as a percentage of the policy value for some unit-linked policies. This would lead to a higher capital requirement. The prescribed factor used to stress the equity shock decreased from 46.09% to 36.1% leading to a decrease in equity type 1 risk capital.

No shareholder funds are invested in equities by the Company.

Interest Rate Risk

Interest rate risk arises when a fluctuation in interest rates adversely affects the Company's SCR coverage. Both an increase and a decrease in interest rates are tested and the basic SCR is based on the more onerous of the two tests. As at 31 December 2022 the 'interest rate up' shock gives the higher result.

Currency Risk

There is an element of currency risk which arises from the fact that some policies (317 at 31 December 2022 compared with 326 at 31st December 2021) are expressed in currencies other than GBP. The main two other currencies in the current portfolio are Euros and US Dollars.

Spread Risk

There is a small amount of spread risk arising mainly from an intergroup loan.

C.2.2 Risk Mitigation

Investments of shareholders' funds are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The Company has processes in place to mitigate Market risks relating to shareholders' funds:

- The Company ensures that the 'Prudent Person Principle' is applied when investing the shareholders' assets (following the counterparty credit limits and concentration limits). The Company makes sure that new investments do not reduce the average credit rating of the bond portfolios.
- Equity risk mitigation - charges are being expressed as a percentage of initial premium rather than fund value (for the business currently being written and the business written over the past few years).
- The Company's risk appetite statement sets thresholds for Market risk as a proportion of the undiversified basic SCR.

C.2.3 Risk Sensitivity

The Company has assessed the sensitivity of the SCR coverage to a number of scenarios involving an instantaneous shock to the risk-free yield curve such that risk-free rates were assumed to be zero.

The shocks tested do not have a significant effect on SCR coverage.

C.3 Credit Risk

The only material Credit risk that the Company faces is Counterparty Default Risk.

This risk arises when a counterparty is unable to fulfil its obligations to the Company, thereby leading to a loss of the Company's financial assets.

C.3.1 Risk Assessment

	2022 £'000	**2021** £'000
Counterparty Default Risk	662	142

The only component of this risk at 31 December 2022 was shareholders' funds held in cash at bank.

C.3.2 Risk Mitigation

The key mitigating controls for credit risk are:

- The risk appetite statement sets thresholds for counterparty exposure in terms of monetary limits per counterparty and credit quality standing of counterparties. These are monitored regularly by the Risk and Compliance Committee and the Board.
- There are procedures for aged debt monitoring.

C.3.3 Risk Sensitivity

Credit (Counterparty) Risk has increased in materiality over 2022.

C.4 Liquidity Risk

Liquidity risk arises when the Company is unable to meet its payment obligations as and when they fall due.

C.4.1 Risk Assessment

Liquidity Risk

Liquidity is not a material risk for the Company since all policyholder liabilities are unit-linked liabilities. We do not hold dedicated capital for Liquidity Risk.

C.4.2 Risk Mitigations

Liquidity risk is managed within the risk management and internal control frameworks. The Company ensures that sufficient liquidity is maintained to meet both immediate and foreseeable cash flow requirements.

The following controls mitigate Liquidity risk:

- investment strategy that ensures significant portion of liquid assets are kept in the portfolio,
- asset-liability matching ensures that there are sufficient funds when payments are due,
- cashflow projections and monitoring,
- approved authority limits for bank payments and investments.

C.4.3 Expected Profit Included in Future Premiums

This requirement does not apply to STM life.

C.5 Operational Risk

Operational risks arise from inadequate or failed processes and systems, as a result of human error or due to external events. These risks can impact the financial results of the Company, its operations or reputation.

C.5.1 Risk Assessment

For the unit-linked business of STM Life the main element of Operational risk are the expenses of running the business (Operational risk is calculated as 25% of these expenses using the standard formula).

C.5.2 Risk Mitigation

Operational risk is managed through:

- Effective corporate governance, including segregation of duties, avoidance of conflicts of interest, clear lines of management responsibility, adequate management information (MI) reporting.
- Strong internal control culture.
- Staff training/awareness of the control responsibilities relating to their roles.
- Appropriate and secure IT systems.
- Ensuring compliance with regulatory requirements.
- Recruiting/retaining adequately skilled staff, adequate performance assessment system.
- Procedures to minimise internal/external fraud.
- Monitoring outsourced service providers.
- Ensuring accurate and timely financial and other external reporting.

Disaster recovery and business continuity plans are put in place and take into account different types of plausible scenarios to which the Company's operations may be subject to.

Operational risk exposures are monitored through the risk register and the risk appetite. There are defined key risk indicators which act as early warnings for increased risk of potential losses.

C.5.3 Risk Sensitivity

Operational risk accounts for 6.1% of the total SCR for STM Life with the main sensitivity being to the expenses of managing the business.

C.6 Other Material Risks

Certain risks are not in the scope of the SCR, however they are considered material for the Company and are monitored through the Risk Appetite Statement and the Risk Register. They are also considered in the stress and reverse stress testing process. These risks are as follows:

C.6.1 Strategic Risk

The failure to define or implement appropriate business strategy could result in financial losses and reputational damage. To mitigate this risk STM Life is monitoring the market and competitive conditions, legal and regulatory changes, and customer demand to decide if strategic adjustments are necessary. The Board also monitors the implementation of the strategy, business plan and business change projects on an ongoing basis.

STM Life does not explicitly allocate capital for Strategic risks, however the stress and reverse stress testing consider the impact of certain extreme events relating to these risks.

The key Strategic risks for the Company are as follows:

New Business

An important element of STM Life's strategy is to start to write sufficient new business to cover the policies that go off the books as a result of deaths and surrenders. In 2022, the Company did not write any new business and consequently, the in-force portfolio reduced, however there were a number of Spanish policies which were added back to the valuation following a ruling by the Spanish Regulator that STM Life could continue to administer these policies after 31st December 2022. Therefore, the count of policies included in the valuation increased. There is clearly a strategic risk that if STM Life fails to write sufficient new business and the in-force book of business continues to decline, per policy expenses will rise at a more rapid rate than economic inflation and solvency coverage will reduce.

C.6.2 Group Risk

Outsourcing to Group

STM Life benefits from operational support through the services provided by Group functions as discussed in **Section B.7**. The Outsourcing risk is mitigated by monitoring the performance of the outsourced services in accordance with the Outsourcing Policy.

The risk of failure of a Group company providing services to STM Life is estimated as low due to the financial stability of STM Group. If this risk does materialise the Board could outsource these services to external providers or alternatively, they could be brought in-house.

Group-wide Professional Indemnity (PI) insurance policy

STM Life benefits from a Group-wide PI insurance policy in exchange for contributing to the insurance premium. There is a risk that another company within the Group could receive a number of complaints that result in significant PI claims, which could increase the insurance premium and consequently STM Life's costs. Also, the terms of the PI insurance could become less favourable in the following years as a result of the claims experience e.g., significantly higher excess and/or buffer payments, which could increase the costs relating to future claims by STM Life.

Group Loan

STM Life has provided a loan to the ultimate parent company. The loan is repayable on demand and interest is charged at 6% per annum.

C.6.3 Reputational Risk

Reputational risk arises from the negative perception on the part of customers, Independent Financial Advisors, shareholders, investors, or regulators which can adversely affect STM Life's ability to maintain existing, or establish new, business relationships.

The Company's brand and reputation could suffer as a result of:

- Internal event (e.g., material failure of internal control, financial reporting errors) or
- External events beyond our control (e.g., negative publicity for another subsidiary in the Group).

The risk is mitigated by:

- appropriate governance framework and effective operation of the three lines of defence,
- effective risk management and internal controls framework,
- strong culture of compliance with laws and regulations, and
- Board's and Committee's oversight of the business.

C.6.4 Conduct Risk

Conduct risk has the potential to arise if the Company's behaviour results in poor customer outcomes. The risk is inherent in any operation that provides products or services to customers.

Delivering good customer outcomes is a key driver in building a valuable, sustainable business and is a key measure as part of the Company's risk appetite.

STM Life's products are distributed through regulated intermediaries, which mitigate the exposure to direct sales and distribution. Conduct risk is further mitigated by a number of controls:

- The design of Company's products is aligned with policyholders' needs.
- The Compliance Function is signing off product documentation and marketing materials.
- Products' key features are communicated to the policyholders.
- The Product Governance committee is approving any new products or product changes.
- Distribution is through regulated intermediaries. There are effective onboarding controls.
- There are complaints procedures and controls in place; complaints are monitored by the Board.
- Training is provided to employees.

C.6.5 Risk Exposure arising from Off-balance Sheet Positions

There are no risk exposures arising from Off-balance Sheet positions.

C.7 Stress and Scenario Testing

Stress testing and Scenario testing include consideration of single stresses and multi-faceted scenarios across all material risk categories to assess STM Life's ability to meet the capital requirements under stressed conditions.

The risks considered in the scenario testing included in the 2022 ORSA were:

- An immediate fall of 25% in market values of policyholder assets.
- An immediate increase in per policy expenses of 7.5%.
- An increase in long term inflation from 2% to 4%.
- A 2% reduction in surrender rates.
- A currency stress of an immediate 25% appreciation of sterling against other currencies.
- A failure of the PI cover in place for those policies with distressed assets.
- Combinations of the above.

The results of the testing show that in most cases the Solvency Ratio over SCR would be in excess of the minimum target of 140% set by the Board and in all cases above 100%. The conclusion is that STM Life is well placed to withstand the stresses documented above.

In addition, a reverse stress test including lower surrenders, higher per policy expenses and expense inflation, currency appreciation, higher operational risk and failure of PI insurance to the tune of £2m was run, which led to the main solvency ratio falling below 100% although the ratio over the AMCR remained above 170%.

D. Valuation for Solvency Purposes

D.1 Assets

Summary of asset valuation

The table below sets out the valuation of the Company's assets on a GFRS102 and Solvency basis as at 31 December 2022 and 31 December 2021:

Assets (in £'000)	**2022**		**2021**	
	GFRS 102	**Solvency**	**GFRS 102**	**Solvency**
Investments – Cash	4,309	4,309	2,115	4,717
Investments - Bond and Deposits	-	-	2,002	-
Assets held to cover linked liabilities	-	233,261	279,137	266,037
Debtors	1,117	1,117	1,320	1,319
Other assets	11	-	9	-
Prepayments and accrued income	43	43	29	20
Total assets	**5,480**	**238,730**	**284,612**	**272,093**

Assets held to cover linked liabilities are not reported in the 2022 GFRS 102 section as a result of a change in Gibraltar legislation. The company is still the legal owner of the assets and has a matched liability to the policyholder for the same value. The assets and corresponding liabilities have not been transferred to another entity. There have not been any changes to the terms and conditions of the underlying policies and premiums which would have precipitated this change in accounting recognition.

Fair value measurement

In accordance with the Delegated Regulation, Solvency figures are based on fair value. Where applicable, the Company measures the fair value of a financial instrument using the quoted price in an active market for that instrument.

Bonds – including Government bonds, Corporate bonds, and Collateralised securities.

Government bonds consist of UK government gilts and treasury bonds. The valuation of gilts is based on level 1 methodology of the fair value hierarchy, whilst the valuation of treasury bonds and other fixed-interest securities (including corporate bonds and collateralised securities) are based on the level 2 methodology of the fair value hierarchy.

Deposits other than cash equivalents

Deposits other than cash equivalents consist of cash held on fixed term-deposits with a maturity date greater than a year and cash held with investment managers for investment purposes. The valuation of this is the total cash balances held and includes the interest accrued on the deposits up until the balance sheet date.

Assets held for index-linked and unit-linked contracts

The valuation of these assets is consistent with the fair value hierarchy.

Insurance and Intermediaries receivables

The valuation of these assets follows the Solvency fair value hierarchy. There is no difference between the Solvency valuation and the GFRS 102 valuation.

Property, plant, and equipment held for own use

Property, plant, and equipment are held at fair value following the Solvency level 2 and level 3 of the fair value hierarchy.

There is no difference between the Solvency valuation and the GFRS 102 valuation of these assets.

Cash and cash equivalents

This consists of highly liquid cash holdings held and valued at their actual balances. The difference between the Solvency valuation and the GFRS 102 valuation of these assets is due to differences in disclosure requirements based on the maturity dates.

Receivables (trade, not insurance)

The valuation of these assets follows the Solvency fair value hierarchy. There is no difference between the Solvency valuation and the GFRS 102 valuation.

Any other assets, not elsewhere shown

The valuation of these assets follows the Solvency fair value hierarchy. There is a small difference between the Solvency valuation and the GFRS 102 valuation.

D.2 Technical Provisions

Analysis of Technical Provisions

The table below shows the technical provisions split by line of business and between the best estimate liability and risk margin as at 31 December 2022.

Analysis of Technical Provisions:	**Solvency 2022** £000	**Solvency 2021** £000
Unit Linked liabilities (BEL)	233,261	266,037
Non-unit liabilities (BEL)	(8,559)	(4,710)
Risk Margin	3,710	3,424
Total	**228,412**	**265,342**

Overall technical provisions have increased over the year as a result of:

- Decrease in unit linked liabilities over the year as a result of decreasing asset values and policy exits.

- The non-unit reserve is £3.9m lower (i.e., a larger negative) at the end of 2022 largely as a result of a decrease in the per policy expense assumption to £546 per policy in 2022.
- The risk margin is £0.3m lower mainly as a result of the larger capital requirements caused by the increase in the absolute value of the non-unit liabilities.

The best estimate Solvency cash flows are valued on a market consistent basis using UK specific risk-free discount rates prescribed by GFSC.

Where the best estimate of liabilities for a group of similar contracts is negative, this has been allowed in the Solvency technical provisions.

An additional risk margin is required under the Solvency regulations. This represents the cost of capital that another insurance undertaking would require to take on the Company's insurance liabilities using the 6% cost of capital rate.

Main Assumptions

Discount Rates

The valuation interest rates used to discount the best estimate liability and risk margin is the relevant basic sterling risk free term structure of interest rates as at 31 December 2022 and provided by the Prudential Regulation Authority ('PRA').

Five-year discount rates increased by just over 2.6% during 2022 reflecting the change in the term structure of risk-free interest rates in the year.

Expenses

The per-policy expense assumption decreased as at 31 December 2022 mainly as a result of a review of the allocation of expenses between acquisition and renewal.

Lapses

Lapse assumptions are derived using actual experience and have regard to current trends in experience and, where appropriate the duration of the contract.

Lapse rates were maintained at the same level as 2021.

Mortality Assumptions

Mortality assumptions are set based on standard actuarial tables of mortality rates. Different rates are assumed for males and females.

Methodology

Technical Provisions are defined as the sum of the Best Estimate of Liabilities and the Risk Margin. The best estimate and risk margin are calculated separately.

Best Estimate of Liabilities

The Company has a database from which individual policy data is extracted and validated for completeness and accuracy. This data is used to calculate the Technical Provisions and Solvency Capital Requirement and has passed an appropriate level of controls.

The best estimate of insurance liabilities is calculated on a policy-by-policy basis for all contracts accepted on risk at the valuation date using a cash flow approach and generally accepted actuarial practices. The calculations generate probability weighted cashflows for each monthly time period within a policy's contract boundary. The cash flows are discounted using the risk-free yield curve and thus allow appropriately for the time value of money.

If the present value of future cash flows on a contract gives rise to a negative best estimate of liabilities, this has been allowed.

Risk Margin

The total risk margin is calculated as the sum of the present values of the cost of capital rate applied to the SCR of an undertaking, willing to take on the Company's insurance portfolio, in each future year until the obligations are extinguished and there is no remaining SCR. The future SCRs are modelled using a permitted simplification whereby the SCR is assumed to be proportional to the projected best estimate of liabilities for each group of similar contracts. If a contract has a negative best estimate of liabilities, projected policy volumes are used to run off the SCR.

The risk margin has been calculated by applying the Company's capital requirements arising under the standard formula SCR Life Risk Module as well as a subset of the Counterparty Risk Module directly to the reference undertaking without adjustment. Market risk and remaining Counterparty risk are assumed to be fully hedged.

Uncertainty in the Technical Provisions

Uncertainty arises from actual experience being different to the assumptions used in the calculation of the best estimate of liabilities. The most significant source of uncertainty is lapse rates. In particular this affects the BEL non-unit reserve.

GAAP Reserves versus Solvency Technical Provisions

All figures in £'000s

	GAAP Reserves	Technical Provisions
Unit Reserve for UL business	-	233,261
Non-unit Reserve for UL business	-	(8,559)
Policy reserves for Class I business	-	
Risk Margin	-	3,710
Total reserves	**-**	**228,412**

For the GAAP reserves non-unit reserves cannot be negative and so are set to zero for the portfolio as a whole whereas Solvency Best Estimate Liabilities can be negative and hence there is a negative non-unit reserve. This is countered by a Risk Margin.

GAAP Reserves are £nil as a result of a change in Gibraltar legislation. The company is still the legal owner of the assets and has a matched liability to the policyholder for the same value. The assets and corresponding liabilities have not been transferred to another entity. There have not been any changes to the terms and conditions of the underlying policies and premiums which would have precipitated this change in accounting recognition.

Independent Peer Review

Since July 2018 all actuarial figures have been subject to an independent peer review by an external actuary. In 2021, following the retirement of Philip Whitefield, Jeremy Nurse of Zenith Actuarial was appointed as Independent Peer Review Actuary. Since September 2022, peer review has been provided by John Burgum of OAC. Peer Review comments are included as Appendix 2.

D.3 Other Liabilities

Other liabilities include Insurance & Intermediary Payables and Other Creditors (mainly payments for outsourced services and accruals).

E. Capital Management

E.1 Own funds

Objective, policies, and processes for managing own funds

STM Life aims to maintain a strong capital base supporting the business plan and meeting the regulatory capital requirements on an ongoing basis.

The Company is managing its funds such that there is an appropriate margin of own funds over the solvency capital requirement at all times. This is monitored formally through the Risk and Compliance Committee on a quarterly basis, and through an ongoing review of key market and demographic assumptions.

Own funds represent the excess of assets over liabilities and are invested in cash and other assets, fixed interest sovereign and corporate debt. Overall, the assets aim to generate positive returns for shareholders subject to an acceptable level of risk, compliance with regulatory requirements and the required level of liquidity.

Own Funds classified by tiers

Own funds are classed as Tier I capital. Tier 1 is the highest quality capital, which is able to absorb losses under all circumstances, including on a going-concern, run-off, and winding-up basis.

The own funds as at 31 December 2022/2021 are shown in the table below:

Solvency Balance Sheet (£m)		**2022**
Assets		238.7
Best Estimate Liabilities	224.7	
Risk Margin	3.7	
Other Liabilities	0.3	
Total Liabilities		228.7
Eligible Own Funds to cover SCR and MCR		**10.0**

Solvency Balance Sheet (£M)		**2021**
Assets		272.1
Best Estimate Liabilities	261.9	
Risk Margin	3.4	
Other Liabilities	0.5	
Total Liabilities		265.8
Eligible Own Funds to cover SCR and MCR		**6.3**

No dividends were paid by STM Life in 2022.

E.2 Solvency and Capital Requirement and Minimum Capital Requirement

The amount of Solvency Capital Requirement ('SCR') and Minimum Capital Requirement ('MCR') are shown in the table below.

	2022 £m	2021 £m
Solvency Capital Requirement	4.68	3.91
Minimum Capital Requirement*	3.19	3.12

*The MCR as at 31 December 2022 was equal to £3.186m being the absolute minimum capital requirement.

STM Life is not subject to any capital add-on at the end of the reporting period.

Solvency Capital Requirement Split by Risk Module

The Company uses the standard formula as originally set out in the Solvency II Directive Article 230 and now adopted into Gibraltar Legislation to calculate the SCR and does not use any undertaking specific parameters.

The table below sets out the net basic SCR for each of the risk modules after diversification within risk module. The risk module capital requirements are calculated without using simplifications.

	2022 £'000	2021 £'000
Market Risk	1,505	1,712
Counterparty Risk	662	142
Underwriting Risk (Life)	3,509	2,574
Diversification Benefit	(1,281)	(900)
Basic SCR	**4,396**	**3,528**
Operational Risk	287	378
SCR	**4,682**	**3,906**

The SCR has increased by £0.8m over the year with increases in life and counterparty risk capital. The diversification benefit has also increased. **Section C. Risk Profile** provides additional information on the key risk drivers for each type of risk**.**

Minimum Capital Requirement

The components of the MCR calculation are shown below. The absolute floor of the MCR is prescribed by GFSC as €3.7m for an insurer with long term liabilities. This equates to £3.186m in UK sterling using the exchange rate for year-end 2022 as advised by the GFSC.

Overall MCR calculation	**£m**
SCR	£4.7m
MCR cap (45% of SCR)	£2.1m
MCR floor (25% of SCR)	£1.2m
Absolute floor of the MCR	£3.2m
MCR	£3.2m

Solvency Position

	Capital Requirement	Eligible Own Funds	Solvency Ratio
SCR	£4.7m	£10.0m	213.3%
MCR	£3.2m	£10.0m	313.5%

E.3 Use of Standard Equity Risk Sub-module

Not Applicable for STM Life.

E.4 Differences between Standard Formula and internal model

The Company uses the Standard Formula to assess its Solvency Capital Requirement (SCR).

E.5 Compliance with MCR and SCR

The Company has performed a full valuation at the end of each quarter during 2022. In the intervening periods, key risk factors are regularly monitored to identify whether they remain within tolerance levels.

Appendix 1 Quantitative Reporting Templates

The following Quantitative Reporting Templates (QRTs) are required for the SFCR. These files are published on the Company's website. All figures are presented in thousands of pounds with the exception of ratios that are in decimal. Please note that totals may differ from the component parts due to rounding.

QRT Ref	QRT Template name
S.02.01.01.01	Balance Sheet
S.05.01.01.02	Premiums, claims and expenses by line of business
S.05.02.01.04 – S.05.02.01.06	Premiums, claims and expenses by country
S.12.01.01	Life and Health SLT Technical Provisions
S.23.01.01	Own Funds
S.25.01.01.01 – S.25.01.01.05	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

Appendix 2 STM Life SFCR - Peer Review Comments

This is the first year that OAC and Sally Butters have produced the actuarial figures for inclusion in the SFCR for STM Life Assurance PCC PLC ('STM Life' or 'the Company') and this is the first year that I have completed a peer review of this work.

OAC have a documented Work Review Policy under which all actuarial work is subject to work review, and that formal advice given to a firm's governing body by the Chief Actuary should be subject to a process of Independent Peer Review. This report falls under the latter category.

I can confirm that this report has been subject to internal peer review by myself, John Burgum (FIA), a senior actuary who is not routinely involved in the normal day-to-day actuarial activities with STM Life. As such I believe this peer review may be regarded as "independent" and in keeping with the Actuarial Profession Standard X2: Review of Actuarial Work. Any issues raised by the review have been addressed, and no unresolved issues remain.

During the review, clarification was sought on individual statements made to explain aspects of the valuation results. Explanations were provided and, where appropriate, wording was amended to provide greater clarity.

The report explains the movement in the solvency position over the year and the explanations provided are reasonable.

The various risks faced by the Company are identified under the relevant headings. Explanations are provided for the different aspects of the risk capital requirement as required under the Solvency II Standard Formula.

I have previously reviewed the assumptions underlying the valuation and found them to be reasonable.

The overall solvency position of the Company shows an SCR ratio of 213% and an MCR ratio of 314%. This is above the target level of solvency of 155%, demonstrating that the Company is currently well capitalised and resilient to changes in many economic and demographic factors.

The stress tests described as part of the ORSA look reasonable. These will assist management in understanding the significance of the various risks that the Company is exposed to.

Overall, the work undertaken, and the explanations given, mean that I believe reliance can be placed on the information contained in the report and the conclusions drawn from it. The report follows the structure set out in Annex XX and the disclosure information referred to in Articles 292 – 298 of the delegated regulation (Commission Delegated Regulation (EU) 2015 / 35).

John Burgum (FIA)

Senior Actuarial Consultant

6 April 2023

Disclaimer

The financial information in the SFCR is based on the draft financial statements for 2021, because the regulatory deadline for the SFCR is earlier than the deadline for the audited financial statements. If there are any material changes to the financial statements after the SFCR is published a new version of the report will be prepared and published.

Some of the statements in this report may refer to STM Life's future expectations based on the information available to STM Life's Board of Directors and their current views and assumptions at the time of writing the SFCR.

STM Life cannot make any representation or warranty as to the accuracy and/or completeness of such forward looking statements, which by their nature involve unknown risks and uncertainties, nor is any representation or warranty made that they will be reviewed, amended, or brought up to date.

There are many factors and conditions (including but not limited to economic, financial, or political conditions, market performance, external catastrophic events), that may cause actual results to be significantly different from those that may be anticipated in these forward-looking statements.

STM Life does not accept any liability for any decision made, or action taken or not taken, in connection or in conjunction with, directly or indirectly, the information and/or statements contained in this SFCR.

The SFCR and the QRTs referred to in Appendix 1 have not been subject to external audit as this is not required by the GFSC.

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

Financial period ended 31 December 2022.

We certify that:

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

Approval by the Board of the SFCR and reporting templates.

Peter Gatenby

Acting Managing Director

For and on behalf of the Board

Date: 6th April 2023