

SCOTTISH RE (DUBLIN) DAC
SOLVENCY AND FINANCIAL CONDITION REPORT

As of 31 December 2020

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Summary

Overview of Company

Scottish Re (Dublin) dac (the “Company” or “SRD”) is a limited liability company incorporated and domiciled in the Republic of Ireland (“Ireland”) since December 2000, is principally engaged in the reinsurance of life assurance business.

The Company reinsures business from one counterparty, Scottish Re (U.S.), Inc. (“SRUS”), a former affiliate of the Company (as no common control no longer exists) and part of the structure of the Scottish Re group of companies (the “Group” or “Scottish Re”) the Company was originally created under. There is no longer any common control in existence within the Group structure, following the liquidation proceedings of Scottish Re Group Limited (“SRGL”) and Scottish Annuity & Life Insurance Company (Cayman) Ltd. (“SALIC”) (as explained further in the notes accompanying the financial statements following this Report). There are currently two reinsurance agreements in place between SRUS and the Company: a modified coinsurance reinsurance agreement (the “Penn Mutual Life Treaty”) and a yearly renewable term reinsurance agreement (the “YRT Treaty”).

The Penn Mutual Life Treaty with SRUS is a portion of business assumed on individual single premium deferred annuities, as well as individual flexible premium deferred annuities. SRUS assumes from Penn Mutual Life certain individual single premium deferred annuities, as well as individual flexible premium deferred annuities on a coinsurance basis and cedes 90% of the foregoing to SRD on a modified coinsurance basis.

The YRT Treaty assumes risk for amounts between US\$0.5 million to US\$3.0 million. The corridor risk consists of policies primarily comprised of guaranteed level premiums term life insurance issued between 1 January 2004 and 31 December 2004. The defined block of business is a closed block of business. The policies are from a broad section of direct writers. The retained amount of risk is ceded to Orkney Re II plc (“Orkney Re II”), an Irish Special Purpose Reinsurance Vehicle, and a former affiliate within the Group structure.

SRD also has in place, subject to the parenthetical notes, as applicable, the following intra-group agreements with entities within the Group:

- Net Worth Maintenance (“NWM”) Agreement dated 1 January 2002 between SALIC, in liquidation (as explained further in the notes accompanying the financial statements following this Report), and SRD (as amended) (although this agreement is not terminated, SALIC no longer is capable of providing relevant services to the Company and, as a result, no fees are being paid by the Company to SALIC, nor are there any amounts outstanding due to SALIC, under this agreement);
- Support Service Agreement dated 1 January 2002 between SRUS, in rehabilitation (as explained further in the notes accompanying the financial statements following this Report), and SRD;
- Support Service Agreement dated 1 January 2003 between Scottish Holdings, Inc. (“SHI”) and SRD (this agreement effectively is terminated as SHI no longer is capable of providing relevant services to the Company and, as a result, no fees are being paid by the Company to SHI, nor are there any amounts outstanding due to SHI, under this agreement); and
- Support Service Agreement dated 1 June 2017 between Scottish Re Life (Bermuda) Limited (“SRLB”) and SRD. SRLB is a subsidiary of SRUS.

In total, the fees charged in relation to these agreements for 2020, between SRUS and the Company, and between SRLB and the Company, were US\$290,036 (2019: US\$216,966). As of 31 December 2020 and 2019, the Company had US\$27,418 and US\$118,221, respectively, that was payable to these entities, both in relation to the forgoing agreements and for intercompany expenses paid on behalf of the Company by SRUS. Please refer to the section under “*SALIC Developments*” in this Solvency and Financial Condition Report (“SFCR”) with regards to the Company’s inability to rely on the NWM Agreement following events concerning SALIC.

The emergence of the outbreak of COVID-19 in the first quarter of 2020, which has been classified as a pandemic by the World Health Organization, introduced further uncertainty to the Company. With regards to the Company’s technical provisions, the unearned premium reserve on the YRT Treaty, under the Company’s financial statements as prepared under FRS’s 102 and 103, establishes sufficient reserves to avoid the Company setting up a specific COVID-19 provision, as compared to the Solvency II balance sheet requirements, which, under the latter requirements, has a specific COVID-19 provision of approximately US\$553 thousand as of 31 December 2020. The YRT unearned premium reserve is greater than the Solvency II balance sheet best estimate liability and the COVID-19 provision combined, thereby providing the Company with a degree of prudence for any adverse deviation. As of 31 December 2020, the Company has sufficient capital while it continues to regularly monitor updated information on COVID-19 developments to determine if any action is required.

The Company reports under Financial Reporting Standards 102 and 103 (“FRS’s 102 and 103”) and Solvency II.

SRD is required by the Central Bank of Ireland (the “Central Bank”, or “CBI”) to maintain a minimum level of paid up share capital. The Central Bank has put certain restrictions in place on the ability of SRD to make dividend payments from profits available for distribution within the meaning of the Companies Act 2016 (the “Act”). The Central Bank has also issued a direction letter instructing SRD to submit all out of scope expenditure and expenditure to other companies with the Scottish Re to the Central Bank for review and approval prior to the processing of any expenditure, along with a fifteen-day review period.

Affiliated Business Matters

SRGL Developments

On 17 May 2017, SRGL commenced voluntary provisional winding up proceedings in Bermuda (where SRGL maintained its principal executive office) and filed for parallel winding up proceedings in the Cayman Islands (where SRGL is incorporated).

In connection with the Bermuda proceedings, on 18 May 2017, the Supreme Court of Bermuda granted an order appointing personnel from Finance & Risk Services Ltd. of Bermuda and Kalo (Cayman) Limited of the Cayman Islands as Joint Provisional Liquidators (“JPLs”) of SRGL.

In connection with hearings on a winding up of SRGL in each of Bermuda and the Cayman Islands, orders were issued by the respective Bermuda and Cayman Islands courts on 30 January 2018 and 15 February 2018 for the winding up of SRGL and the appointment of the JPLs as Joint Official Liquidators (“JOLs”) to carry out the winding up proceedings. Following these hearings, the JOLs hold full executive responsibility of SRGL.

Subsequent to the entry of the Bermuda and Cayman Islands orders appointing the JOLs, the JOLs sought and received a stay in the Bermuda proceedings and now will carry out the winding up of SRGL through the Cayman Islands proceedings.

In relation to the Company, there were no major contractual relationships with SRGL, other than certain intercompany service fees that SRD owes SRGL prior to the winding up proceedings relating to staff formerly with SRGL. The amount outstanding for the intercompany services fees that is owed to SRGL is not material to the Company and there are no other contractual arrangements between the Company and SRGL. As a result, the winding up of SRGL does not have a material impact on the financial affairs of the Company.

SALIC Developments

On 29 January 2018, SRGL announced that it had commenced, on 28 January 2018, implementation of a sale and restructuring plan for the Company's immediate parent, SALIC, and certain of its subsidiaries (the "Sale and Restructuring").

The Sale and Restructuring plan, which was being implemented through U.S. Chapter 11 insolvency proceedings for SALIC and SALIC's U.S. subsidiary, Scottish Holdings, Inc. ("SHI"), in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") (the "SALIC/SHI Chapter 11"). The Sale and Restructuring plan was ultimately unsuccessful. On 16 April 2019, the Bankruptcy Court signed an Order converting the SALIC/SHI Chapter 11 into liquidation proceedings under Chapter 7 of the US Bankruptcy Code. As a result of the conversion, and as a matter of US law, the full executive responsibility and authority of the SALIC and SHI Boards and SALIC and SHI management passes to a court appointed trustee, which appointment was made on 18 April 2019, for the liquidation estate of SALIC and SHI, including the ability to act as the Company's sole shareholder.

Further information on SALIC/SHI Chapter 11 proceedings can be obtained from the Company's Group website at www.scottishre.com.

The liquidation of SALIC resulted in the following consequences for SRD:

- The SALIC Trustee assumes the SRD shareholder responsibilities; and
- At this time, and in the absence of more information on the Chapter 7 process on SALIC and SHI, the Board is compelled to reduce any reliance on the existence of certain options, such as the Net Worth Maintenance ("NWM") Agreement with SALIC, to mitigate the adverse solvency scenarios. The Company is not able to rely on the benefit of the NWM Agreement, given the current circumstances.

SALIC, through the court appointed trustee, was exploring options for the Company during 2020, which includes a possible sale. As of 31 December 2020, to the knowledge of the Company, no material progress has been made in this regard.

In all stages in these cases, the Company has kept key parties in interest, such as the Central Bank, apprised of the foregoing developments.

SRUS Developments

The failure as of 1 March 2019 for SALIC to close on or be bound to a transaction that would adequately recapitalize SALIC and its subsidiaries, including SRUS and the Company, on 6 March 2019, at the request of the Insurance Commissioner of the State of Delaware (the “Commissioner”), and with the consent of the board of directors of SRUS, the Court of Chancery of the State of Delaware (the “Court”) entered a Rehabilitation and Injunction Order (the “Rehabilitation Order”) placing SRUS into rehabilitation.

As a result, the Commissioner, in his capacity as a statutory receiver appointed by the Court (the “Receiver”), now controls SRUS’s operations. SRUS has been working with the receiver's team of rehabilitation specialists to facilitate the rehabilitation process.

The Rehabilitation Order and associated documents may be accessed on the Delaware Department of Insurance website at: https://insurance.delaware.gov/divisions/rehab_bureau/ under the link for ‘Scottish Re (U.S.), Inc.’ under the headings for ‘Companies in Receivership/Open Estates/Rehabilitation’.

On 30 June 2020, the Receiver filed with the Court a Petition for Approval of the Plan of Rehabilitation of SRUS (the “Petition”) seeking the Court’s approval of a Plan of Rehabilitation contained therein (the “Rehabilitation Plan”). The stated primary goal of the Rehabilitation Plan is “...to take such steps to remove the causes of SRUS’s impairment, unsound condition, or hazardous condition pursuant to the provisions of 18 Del. C. ch. 59...”.

Notwithstanding the filing of the Petition and the development of the Plan, there can be no assurances at this time whether the Rehabilitation Plan will be approved by the Court in its current form, in a modified form, or not at all, and, if approved, when such approval would occur and the Rehabilitation Plan become effective. Accordingly, substantial doubt continues to exist at the date of these financial statements that SRUS will be able to continue as a going concern.

As of 31 December 2020, SRD has received 100% of premiums due from SRUS and has paid 100% of claims outstanding during this Rehabilitation Order.

SRD does not have the ability to require the recapture of one or both of the treaties ceded to it by SRUS, as the right solely rests with SRUS. The Company took legal advice both in Ireland and in the U.S. as to the extent to which it is bound by the Rehabilitation Order. It was noted that both the reinsurance treaties between SRD and SRUS are governed by the laws of the State of Delaware and that the modified coinsurance arrangement (in the case of Penn Mutual Life Treaty) and the reinsurance trust (in the case of the YRT Treaty) are held in accordance with the laws of the State of Delaware. Also, the reinsurance trust is situated in the United States. Accordingly, the Company legal advice provided is that the Rehabilitation Order will be effective in so far as those agreements and the connected assets are concerned.

To the extent SRUS, under the control of the Receiver, caused the recapture of one or both of the treaties from SRD, SRUS generally would be entitled to receive from SRD an amount equal to the US statutory liability ceded to SRD. Also, following the conversion of SALIC’s restructuring proceedings to liquidation proceedings, there no longer is common control between SRUS and SRD through SALIC, and as such no broader Group considerations exist that would be likely to cause SRUS to be amenable to a recapture of the business ceded to SRD unless it made sense solely in respect of SRUS’s interests.

It is expected that the rehabilitation process of SRUS will either result in SRUS exiting rehabilitation successfully and the treaties with SRD continuing or SRUS entering liquidation, in which case the treaties may be terminated, and the amounts specified in the treaties repaid to SRUS, noting that there is uncertainty in this regard.

Given the risks facing the Company, the Central Bank issued a direction letter in 2019 and 2020 to the Company which, among other things, instructed all out of scope expenditure and expenditure to other companies within the Group to be submitted to the Central Bank for review and approval prior to the processing of payment, along with a fifteen-day review period for claims payments, and to cease writing new contracts of reinsurance for a period of twelve months from the date of the direction unless revoked earlier by the Central Bank in writing.

In all stages in these cases, the Company has kept key parties in interest, such as the Central Bank, apprised of the foregoing developments, through regular correspondence and dialogue. As part of the continued appraisal, the Board provided the Central Bank an Additional Analysis of Risk and Options document, prepared by the Board, which goes into detail on the prevalent risks and the associated options explored.

While there is a material uncertainty around the possible outcome and timing of recapture or termination of the two active reinsurance treaties in place between the Company and SRUS (as discussed earlier), the Board believes that the Company will continue as a going concern entity for at least twelve months from the date the financial statements are authorised for issue on 31 March 2021. The validity of this assumption is based on the management's assessment that the Company has the ability to meet its business obligations and, despite the risk associated with incurring a number of large claims, the Company continues to trade and receive 100% of premium due from SRUS and continues to pay 100% of claims outstanding while SRUS is under the Rehabilitation Order. This assumption is further supported by the Company's current solvency position from a Company Law perspective and the infrastructure in place to support the Company's Chief Executive Officer (through the outsourcing of the Head of Actuarial function, the Chief Risk Officer function, and the Head of Internal Audit function, as well as other financial, information technology, and administration support services provided by former affiliated entities of the Company at the Group level which continues to be in place).

Approval

This SFCR was approved by the Company's Board on 31 March 2021.

Section A: Business & Performance

A1. Business

SRD is incorporated in the Republic of Ireland and is a company limited by shares.

The address of the registered office is:

2 Grand Canal Square
Dublin 2
Republic of Ireland

This SFCR covers SRD on a stand-alone basis.

Under Solvency II, the regulator of SRD is the Central Bank.

The external auditor of the Company is:

Grant Thornton
13-18 City Quay
Dublin 2
Republic of Ireland

The signing audit partner of the Company at Grant Thornton (“Grant Thornton”) is Colin Feely.

The legal advisors of the Company are:

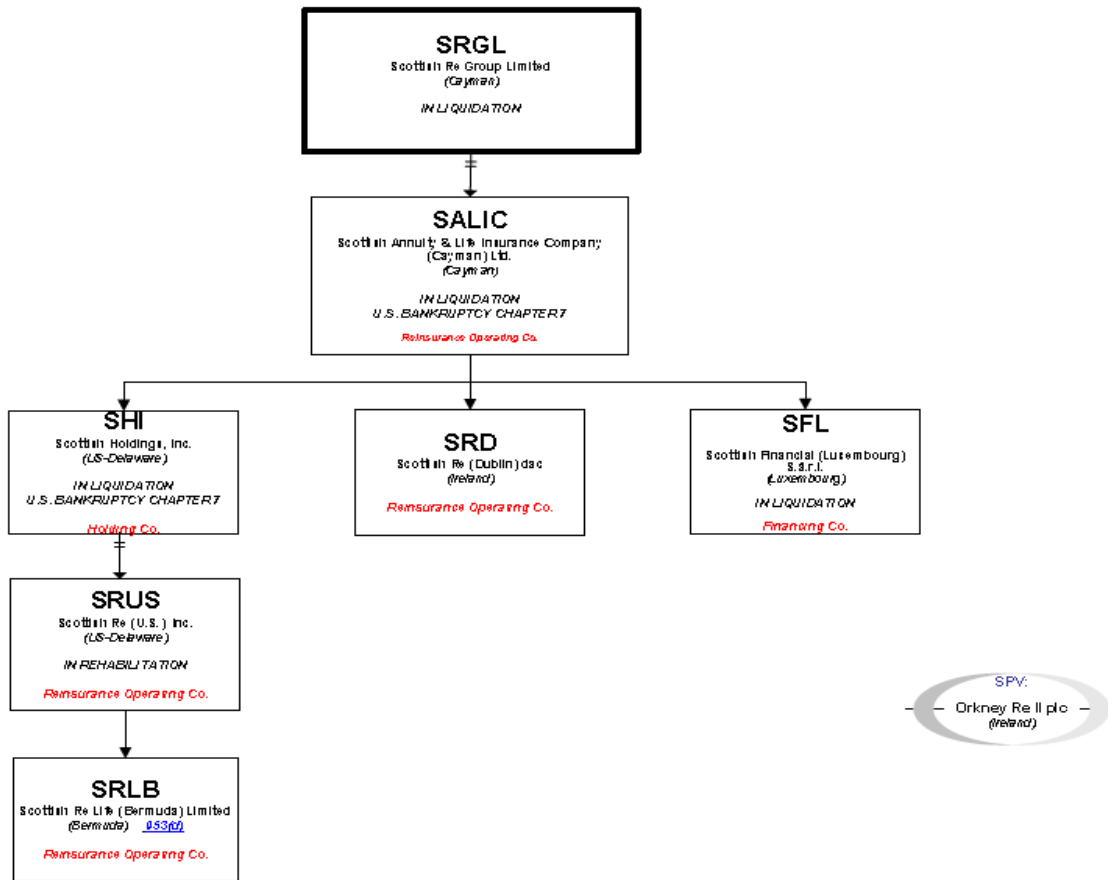
Ireland
William Fry Solicitors
2 Grand Canal Square
Dublin 2
Republic of Ireland

United States of America
Cozen O’Connor
1201 North Market Street, Suite 1001
Wilmington, Delaware 19801
USA

The Company’s immediate parent company is SALIC, a company incorporated in the Cayman Islands, which is not a European Economic Area (“EEA”) State. As stated under the Summary section, SALIC is in Chapter 7 (liquidation) proceedings.

The Company’s ultimate parent is SRGL, a company incorporated in the Cayman Islands, which is not an EEA State. As stated under the Summary section, SRGL is being wound up through Cayman Islands proceedings.

The chart below shows the structure of the Group:



Dated: March 5, 2020

Orkney Re II is a special purpose vehicle (orphan company) which was consolidated into the SRGL Financial Statements prior to SRGL’s winding up proceedings.

A2. Underwriting performance

The table below shows the underwriting profit/loss under FRS's 102 and 103.

SRD FRS'S 102 AND 103 UNDERWRITING PROFIT/LOSS AS OF 31 DECEMBER 2020 AND 2019 (US\$'000):			
	2020	2019	Movement
YRT Net premium written	2,476	3,545	(1,069)
Claims pending/paid	(3,190)	(2,950)	(240)
Change in provision for claims	231	(304)	535
Underwriting (loss) /profit for the year	(483)	291	(774)

The table below shows a breakout of the Net Technical reserves under FRS's 102 and 103.

SRD IRISH RESERVES AS OF 31 DECEMBER 2020 AND 2019 (US\$'000):			
	2020	2019	Movement
Account value	3,603	3,663	(60)
Additional guarantee	2,421	1,994	427
Total (Penn Mutual Life Treaty)	6,024	5,657	367
Unearned premium reserve	1,488	1,833	(345)
Incurred but not reported reserve	337	659	(322)
Paid/pending claims	1,250	1,950	(700)
Total (Guaranteed Level Premium Term Life Treaty)	3,075	4,442	(1,367)
Grand Total	9,099	10,099	(1,000)

A3. Investment performance

Investment income

Investment income is comprised of interest and realised gains. Realised losses are included in investment expenses and charges. Realised gains and losses on sale or maturity of investments are determined by specific identification as the difference between the proceeds and carrying value of the investment. Unrealised gains and losses are separately disclosed and included in the income statement and are determined by specific identification as the difference between cost and market value.

Below is a summary of the investment income and expense for the years 2020 and 2019 (US\$'000):

	<u>2020 US\$</u>	<u>2019 US\$</u>	<u>Movement</u>
Interest on financial investments	396	480	(84)
Interest credited on deposits with cedent	(134)	(140)	6
Investment management charges	(29)	(20)	(9)
Unrealised profit /(losses) on investments	26	(12)	38
Profit on embedded derivative	138	237	(99)

Below is a summary of the Investment Portfolio (US\$'000):

Asset class	2020	% total	2019	% total
Cash and cash equivalents	204	2%	160	1%
Deposits to cedants	3,603	27%	3,663	25%
Deposits other than cash equivalents	2,184	16%	2,304	16%
Government bonds	0	0%	145	1%
Corporate bonds	5,142	39%	5,992	41%
Collateralised securities	2,207	17%	2,279	16%
Total	13,340	100%	14,543	100%

A4. Performance of other activities

Operating expenses for the year totalled US\$1,544,570 (2019: US\$1,392,533); the increase was the result of charges such as US and Irish legal fees for the issues occurring within the Group.

A5. Any other information

The Company's key financial and other performance indicators during the years ended 31 December 2020 and 2019, were as follows (US\$'000):

	2020	2019	Movement
YRT Gross premium written	2,476	3,545	(1,069)
Loss on ordinary activities	(1,681)	(565)	(1,116)
Deposits with ceding undertaking	3,603	3,663	(60)
Financial investments at fair value	2,491	2,625	(134)
Available for sale financial assets	7,043	8,096	(1,053)
Net technical provisions	9,099	10,099	(1,000)

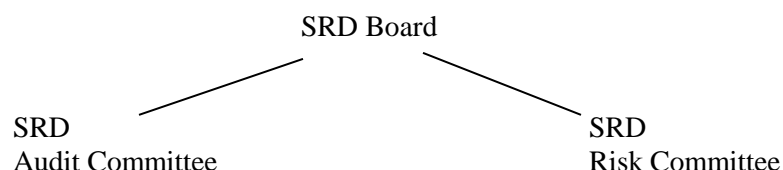
Section B: System of Governance

B1. General information on the system of governance

The Board has the responsibility to ensure that the principles of sound uncompromising good governance are observed.

The Company recognises the importance of strong corporate governance and has established a well-defined governance framework, system of control and committee structure.

Overview of the Board and sub-committees



The Corporate Governance Code Insurance Undertakings (2015) (the “Code”) requires the Company to provide evidence of fitness and probity of all directors (“Directors”) and key management. All Directors and key management of the Company have previously completed appropriate questionnaires regarding their qualifications for the positions to which they have been appointed and have been approved by the Central Bank. New Directors and senior managers will complete the Fit and Proper Individual Questionnaire for approval by the Central Bank as required by the Fit and Proper Requirements paper.

The Company must have sufficient resources within Ireland to set strategic direction, and have the ability for decision-making, control, and accountability. The Company currently has a strong and active Board, which include Jim Ruane and Alex Tully as independent non-executive directors, Gregg Klingenberg (Chief Executive Officer (“CEO”) of SRUS), and Karina Lynch (CEO of SRD). Karina Lynch also acts as Compliance Officer of the Company and is based in Ireland. TJ Keller (Executive Vice President, Chief Financial Officer of SRUS) resigned as a director of the Board on 12th February 2021. The Board is currently in the process of finding a replacement for TJ Keller.

The Company has appointed Mark Harris (Senior Vice President, Finance Manager of SRLB) as its Chief Risk Officer, and Head of Internal Audit.

Jim Ruane and Alex Tully are considered Independent Non-Executive Directors (“INEDs”) and satisfy all defined requirements of INEDs in Ireland. The Company’s corporate governance guidelines require at least one INED to be present at any Board meeting in order to meet a quorum. Alex Tully was appointed as Chairman of the Board on 18 October 2017.

From time to time, the Directors consider the composition and size of the Board as it relates to the ability to adequately oversee Company operations. Each Board member has agreed to defined time commitments required to fulfill their responsibilities.

The Directors, with the assistance of management, continually monitor and approve the targeted minimum solvency level. The Company set a solvency target at 150% under Solvency II in 2018. This target level was reduced to 100% in 2020. The retrocession strategy for the Company is also reviewed periodically and approved by the Directors. Human resource policies covering appointment, disciplinary procedures, and dismissal of senior management (including remuneration) have been adopted by the Board. The Company has defined contribution pension scheme in place with an annual contribution rate of 15% of eligible pensionable earnings.

The Company utilises support from other Scottish Re in the U.S.A. and Bermuda, primarily in the form of information technology, actuarial, and accounting support services. With this support, management of the Company oversees the daily operations, provides the Board with recommendations for review and approval on objectives, strategy, business plans, and major policies, and provides the Board with comprehensive, relevant, and timely information to fulfill their responsibilities.

All material contracts entered into by the Company are reviewed by local Irish counsel as necessary. Investment management is outsourced with oversight by the Board, who receive regular investment reports.

The Company has established effective internal controls and systems to communicate information between management and the Board.

The Board will continue to monitor the Company's corporate governance structures, particularly in the context of any new business underwritten by the Company, to ensure that it has levels of oversight in operation that are consistent with and proportionate to the size and complexity of its business and to ensure that it has internal governance mechanisms in place which are commensurate with the standards of the Central Bank's corporate governance guidelines and in compliance with the Code.

B2. Fitness and proper requirements

Requirements for skills, knowledge and expertise

The Company ensures that all persons who effectively run the Company or have other key functions are fit to provide sound and prudent management through their professional qualifications, knowledge and experience and are proper by being of good repute and integrity.

In order to ensure that Senior Managers / Company Directors of the Company are fit, they are recruited giving due regard to interview requirements, referencing, relevant skills, personal and professional background and other checks as required and relevant to the role to be undertaken.

In order to ensure that Senior Managers / Company Directors are proper, they are subjected to a variety of checks at the commencement of their assessment.

B3. Risk management system including the own risk and solvency assessment

The Company has developed a comprehensive set of risk policies, frameworks and guidelines to ensure that adequate processes and procedures are in place to manage all types of risk. These documents are aligned with the current regulatory requirements under the Solvency II regime and adopted by the CBI.

The Company adopts the ‘three lines of defense’ governance model:

The 1st Line of Defense – Business Management

Business management makes up the first line of defense. Overall, the first line of defense is responsible for the day to day management of risk and control within the business operations as well as delivering the strategy and optimising business performance within an agreed governance and risk framework.

The 2nd Line of Defense – Oversight

The second line of defense functions comprise of the risk management function and the compliance function. These are independent functions that provide limited assurance to the Board with regards to the adequacy and effectiveness of the overall risk management system. These functions have the authority to communicate with any employee and obtain timely access to any records required to carry out its responsibilities.

The 3rd Line of Defense – Assurance

The third line of defense comprises of the Company’s independent assurance functions, i.e., internal and external audit, that provide an independent and balanced view of the effectiveness of the first- and second-line functions as defined above.

Own Risk and Solvency Assessment (“ORSA”)

The ORSA is required under Article 45 of Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (the “Solvency II Directive”). The Solvency II Directive requires that insurance and reinsurance undertakings shall perform the ORSA regularly, at least annually, and without any delay following any significant change in their risk profile.

The Company approved its annual ORSA on 16 December 2020.

The Board of the Company retains responsibility in respect of the ORSA process and has an active role steering the process and challenging the results. The Board has also produced an Additional Analysis and Options document on 6 March 2020, which it has submitted to the Central Bank to provide more in-depth analysis of the primary risks facing the Company.

B4. Internal control system

The Company maintains a financial control framework that governs financial and regulatory reporting in the company. This framework aims to ensure that:

- All the risks that pertain to the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework have been identified and documented;
- There are controls (manual and automated) in place to address these risks and they are adequately designed to prevent or detect material misstatements in the financial statements and disclosures; and
- The controls identified operate as they are supposed to and are appropriately evidenced.

The financial control framework is subject to annual review of the appropriateness and effectiveness of the controls. This review is conducted by the Internal Audit function and the results submitted to the Audit Committee.

The financial statements, under FRS's 102 and 103, are also subject to rigorous controls in the production and review leading up to publishing. The actuarial liabilities are produced using best practice actuarial practices that are subject to review by the Risk Committee. The statements are also subject to internal review and external audit review. They are presented to the Audit Committee and Board for sign-off prior to publishing.

B5. Internal audit system

The internal audit function is part of the third line of defense in the Company.

The internal audit function of the Company is managed by the Head of Internal Audit is Mark Harris who reports into the chair of the Audit Committee, which is a Non-Executive Director role. This reporting structure ensures independence of the internal audit function.

The internal audit in the Company is implemented through the following process:

- An audit plan is created on an annual basis and ensures sufficient evidence will be obtained to evaluate the effectiveness of the risk management and control processes across the business.
- The plan includes a review of the major risk management processes operating across the business and a selection of the key risks identified from those processes.
- The audit plan also gives special consideration to those operations most affected by recent or expected changes. The proposed plan is flexible so that adjustments can be made during the year as a result of changes in management strategies, external conditions, major risk areas, or revised expectations in respect of achieving the business' objectives.
- Any proposed changes or update in the plan are reported to the Audit Committee for their review and agreement before they are incorporated into ongoing work.
- The Audit Committee review and approve the plan at least annually.

Based on the annual plan, the internal audit activity evaluates the adequacy and effectiveness of controls encompassing the business' governance, operations, and information systems. This includes:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations, and contracts.

In determining the proposed audit plan, the Head of Internal Audit considers relevant work that will be performed by other areas, e.g. Compliance Assurance, External Audit. To minimise duplication of effort and inefficiencies the work planned, or recently completed, by management in its assessments of the risk management process, controls and quality improvement processes, as well as the work planned by the external auditors, are considered in determining the expected coverage of the audit plan for the coming year.

The Audit Committee and the Board requires that the Head of Internal Audit performs sufficient audit work and gathers other available information during the year so as to form a judgement regarding the adequacy and effectiveness of the risk management and control processes. The Head of Internal Audit communicates overall judgement regarding the Company's risk management process and system of controls to the Audit Committee Board of Directors.

B6. Actuarial function

The Company provides for an Actuarial Function as specified in the CBI Solvency II guidance.

The position of Head of the Actuarial Function is held by Dermot Corry of Milliman Limited ("Milliman"), who has a wealth of experience in the Irish reinsurance industry.

Dermot Corry is a Fellow of the Society of Actuaries in Ireland and has complied continuously with the specific professional obligations this requires. He is an Approved Person under the regime.

The Head of the Actuarial Function is supported by staff from the Group and colleagues within Milliman.

B7. Outsourcing

Outsourcing is the use of a third party (either an affiliated entity within the same group or an external entity) to perform activities on a continuing basis that would normally be undertaken by the Company. The third party to whom an activity is outsourced is a 'service provider'.

The Board ensures that any outsourcing arrangement does not diminish the Company's ability to fulfill its obligations to customers or its regulator, nor impede effective supervision by its regulator.

Fundamental responsibilities such as the setting of strategies and policies, the oversight of the operation of the Company's processes, and the final responsibility for customers, shall not be outsourced.

The Board approves all outsourcing and considers outsourcing where they believe that there is an advantage to the Company and customer by using a service provider e.g. access to specialist resource, provision of services in the same jurisdiction as the customer, cost benefits.

SRD Outsourcing

Service Provider	Services Provided	Jurisdiction Located
Milliman	Actuarial Services	Republic of Ireland
PwC	Tax Consulting Services	Republic of Ireland
William Fry	Legal Services	Republic of Ireland
Cozen O'Connor	Legal Services	USA
Wilton Secretarial	Company Secretary	Republic of Ireland
Brendan J McLoughlin	Payroll Services	Republic of Ireland
Scottish Re	Underwriting, Legal, Tax, HR	Bermuda/USA

B8. Any other information

There is no other information on its general corporate governance of the Company which the Company believes needs to be disclosed at this time.

Section C: Risk Profile

The Company accepted reinsurance treaties from within Scottish Re and was open to accepting further business from within the Group. However, having regard to developments outlined under “Affiliated Business Matters”, and the Central Bank direction submitted to the Company on 28 November 2019 and 13 November 2020, to cease writing new contracts of reinsurance for a period of twelve months from the date of the direction unless revoked earlier by the Central Bank in writing, no further business may come to the Company.

There are two reinsurance treaties on the Company’s statement of financial position as at end of year 2020, of which both treaties are from within the Group. Under the Penn Mutual Life Treaty, the Company shares in the risk associated with a block of single premium and flexible premium deferred annuities.

This Penn Mutual Life Treaty is written on a modified coinsurance basis (“modco”). Consequently approximately US\$3,602,918 of reserves (as of 31 December 2020) are withheld by SRUS as the retrocedent such that SRUS holds and maintains all applicable U.S. statutory reserves on the underlying reinsured contracts. Assets equal to those U.S. statutory reserves are and remain the property of SRUS. At the end of each calendar quarter, SRD determines a modco reserve adjustment. From the US statutory reserves for contracts in force at the end of the current calendar quarter will be subtracted the US statutory reserves for contracts in force at the end of the previous calendar quarter (increased by one quarter interest). If the modco reserve adjustment is positive, the treaty requires that it will be paid by SRD to SRUS; if negative, the treaty requires that it will be paid by SRUS to SRD.

Under the second treaty the Company shares in the risk associated with a block of US term insurance business. The second treaty is written on a YRT basis and is referred to as the YRT Treaty.

SRD is obliged to provide security in an amount equal to the portion of the statutory reserves ceded to SRD under the YRT Treaty so as to allow SRUS to obtain full credit on its statutory annual and quarterly financial statements filed with the Commissioner (or if the Commissioner is acting in its capacity as the court appointed receiver of SRUS under the Rehabilitation Order, the Receiver). In connection with this Treaty, SRD has created a Trust Account with Bank of New York Mellon and SRUS as beneficiary (the "Trust Account") in order to ensure that SRUS receives full statutory reserve credit in Delaware for the insurance risks ceded to SRUS under the YRT Treaty. Currently, under that arrangement, Bank of New York Mellon as Trustee holds US\$5,976,271 (as of 31 December 2020) covering a reserve requirement of US\$4,136,677. The relevant Trust Agreement provides that to the extent that the market value of assets in the Trust Account exceeds 102% of the liabilities for which the Trust Account was created, SRD, with the prior written consent of SRUS, is entitled to request the Trustee to transfer the excess assets to SRD. SRD wrote to Bank of New York Mellon and SRUS requesting the withdrawal from the Trust Account of the excess above 102% of liabilities. However, given the fact that SRUS is under a Rehabilitation Order, the Receiver did not provide SRUS’s consent to the withdrawal in which case Bank of New York Mellon did not agree to release the excess amount to SRD.

Under the terms of the YRT Treaty, monies in the Trust Account can be used by SRUS, including by the Receiver, only for certain enumerated purposes including to pay or reimburse SRUS for SRD’s share of benefits and other liabilities paid by SRUS under the terms of the underlying reinsurance agreements; other amounts necessary to secure the credit or reduction from liability for reinsurance taken by SRUS; and to fund premiums returned by SRUS in respect of an underlying policy in the event of its cancellation.

Therefore, the Receiver can only use those sums for permitted purposes under the YRT Treaty.

The Company sets out its risk appetite in its risk appetite statement. The Company has set a target solvency ratio in December 2020 of 100% on a Solvency II basis.

The Board continues to closely monitor the solvency position of the Company. It has clearly defined what it considers to be an acceptable solvency position, which was 150% in 2019, although circumstances over the past year have resulted in the Company's solvency position declining below this level and below what considered the red zone of the solvency ratio of 125%, as defined in the 2019 Risk Appetite Statement that was approved by the Board in November 2019. As of the date of this 2020 Risk Appetite Statement, the Company has been in the red zone range of under 125% since the beginning of 2020. As a result, the Risk Committee, the Board, and the Central Bank have been updated on the Company's solvency situation, at a minimum, on a monthly basis, and more frequently as more information is available.

A fall in the solvency ratio below 100% will constitute a material breach to the Risk Appetite.

As stated earlier, SRD has a number of service agreements in place with Scottish Re. In reliance on these agreements, SRD receives primarily information technology, actuarial and accounting support services. With this support, management of SRD oversees the daily operations of SRD, provides the Board with recommendations for review and approval on objectives, strategy, business plan and major policies and provides the Board with comprehensive, relevant and timely information to fulfil their responsibilities. Satisfactory services continue to be provided to SRD by Scottish Re as service providers under these agreements.

C1. Underwriting risk

C1.1 Risk exposure

The Company is exposed to the following underwriting risks:

- Lapse risk
- Expense risk
- Mortality risk, including catastrophe risk
- Longevity risk

The following table summarises the capital requirements in respect of these risks, at year-end 2020 and year-end 2019. The figures are calculated on a standard formula basis.

Life Underwriting Risk (US\$'000)	2020	2019	Movement
Lapse Risk	803	815	(12)
Mortality Risk	1,049	1,190	(141)
Expense Risk	405	402	3
Catastrophe Risk	597	577	20
Longevity Risk	224	165	59
Diversification	(1,195)	(1,183)	(12)
Total Life Underwriting Risk	1,883	1,966	(83)

See S.05.01.01.02 Basic Capital Requirement in Appendix I for further information.

Underwriting risks are assessed using a number of different methodologies, including:

- Sensitivities
- Capital Requirements and own solvency needs assessments
- Scenario testing

Mortality Risk

There is significant mortality risk attaching to the YRT Treaty, as this is pure term insurance business and the development of future mortality rates will determine the profitability of the treaty. There is also risk arising from variability of claims experience given the number of lives covered and this risk is reflected through the catastrophe solvency capital requirement (“SCR”).

There is limited mortality risk on the Penn Mutual Life Treaty as the death benefit is equal to the account value.

Persistency Risk

The Company has a significant exposure to lapse risk because the future profits embedded in the Best Estimate Liability (“BEL”) calculation are dependent upon the number of underlying policies that remain inforce.

Expense Risk

Expense risk represents the risk that expenses are higher than expected and that expense inflation increases more than projected. This is a relatively material risk for the Company given the scale of the inforce business.

Longevity Risk

The Company has a limited amount of longevity exposure associated with the Penn Mutual Life Treaty. The longevity risk arises because if the underlying policyholders live longer than expected then the cost of the guarantees will increase accordingly.

C1.2 Risk concentration

The Company has some exposure to mortality risk concentration given the number of lives covered under the YRT Treaty and the potential for large claims arising from a number of deaths. This has been evident in 2020 and 2019 with higher experienced mortality caused by a small number of large claims in those years. The Company has 2% of the policies in force as of 31 December 2020 that have a sum assured in excess of US\$1.5 million.

C1.3 Risk mitigation

Mortality risk is mitigated through the high profitability attaching to the YRT Treaty. However, this risk mitigation can be offset by claims experience in any one year being dominated by a small number of large claims, as seen in 2020 and 2019.

Furthermore, the Board is compelled to reduce any reliance on the existence of certain options, such as the NWM Agreement with SALIC, to mitigate the adverse solvency scenarios.

The Company is no longer able to rely on the benefit of the NWM Agreement, given the current circumstances.

C1.4 Risk sensitivity

The sensitivity of the life underwriting risks can be seen in the results of the SCR shocks, the results of which are detailed above. Mortality risk is the most significant life underwriting risk and an increase in mortality rates (as per the standard formula shock) would result in the future profits embedded in the inforce business falling by US\$1.0 million.

The assumptions and methodology used for these risk sensitivities are consistent with those outlined in Section D2.

C2. Market risk

C2.1 Risk exposure

The Company is exposed to the following market risks:

- Spread risk
- Currency risk
- Interest rate risk
- Concentration risk

The following table summarises the capital requirements in respect of these risks, at year-end 2020 and year-end 2019. The figures are calculated on a standard formula basis.

Market Risk (US\$'000)	2020	2019	Movement
Spread Risk	1,763	2,612	(849)
Currency Risk	406	350	56
Interest Rate Risk	187	6	181
Concentration Risk	39	30	9
Diversification	(386)	(274)	(112)
Total Market Risk	2,009	2,724	(715)

Underwriting risks are assessed using a number of different methodologies, including:

- Sensitivities
- Capital Requirements and own solvency needs assessments
- Scenario testing

Interest Rate Risk

There is interest rate risk associated with the Penn Mutual Life Treaty because there is an investment guarantee associated with the underlying business. The underlying policies have a minimum guaranteed rate of 4% per annum.

There is a risk that the Company will not be able to cover the guarantee from the yields available in the market. The current low interest environment means that it is likely that the 4% guaranteed level will not be achieved in the short to medium term.

There is also market risk associated with the other investments of the Company. The Company invests in bonds and asset backed securities so that a movement in interest rates will result in the market value of assets moving accordingly.

Foreign Exchange Risk

The Company has some limited currency risk. Most of the Company's income, liabilities and assets are denominated in USD. Most of the Company's operating expenses are denominated in Euros, which leads to a small amount of currency risk.

Credit Spread Risk

The Company assumes a certain amount of credit spread exposure through investment in bonds and asset backed securities. Any increase in spreads would result in the market value of the assets held declining. The mortgage-backed securities held by the Company are particularly sensitive to this risk.

C2.2 Risk concentration

The Company does not have any material risk concentrations in relation to market risk, as assets are diversified across a wide range of issuers and asset-types.

C2.3 Risk mitigation

Market risks are mitigated through diversification and ongoing monitoring of the investments.

The Board is responsible for monitoring the investment performance and the Risk Committee is responsible for monitoring the associated risks arising from investments.

Assets are invested in accordance with the prudent person principle, based on the Company's Investment policy.

C2.4 Risk sensitivity

The sensitivity of the market risks can be seen in the results of the SCR shocks, the results of which are detailed above. Spread risk is the most significant of the risks and a significant movement in spreads would result in the Company's assets declining in value.

The assumptions and methodology used for these risk sensitivities are consistent with those outlined in Section D2.

C3. Credit risk

C3.1 Risk exposure

Counterparty risk primarily arises in relation to the deposits with banks and reinsurance receivables, noting that risks arising from credit spreads are covered under market risk. The Company has a significant amount of cash holdings. The Company had US\$203,910 cash as of 31 December 2020 (2019: US\$160,163) and a reinsurance receivable of US\$ nil (2019: US\$21,268). The Company is exposed to the risk of default on these holdings.

The following table summarises the capital requirements in respect of these risks, at year-end 2020 and 2019.

Counterparty Risk (US\$'000)	2020	2019	Movement
Type 1	58	130	(72)
Type 2	6	-	6
Diversification	(1)	-	(1)
Total Counterparty Risk	63	130	(67)

C3.2 Risk concentration

As stated earlier under “Affiliated Business Matters” SRUS was placed under a Rehabilitation Order which provides SRUS with court protection during the rehabilitation period. During that period, all counterparties are restrained from taking action against SRUS for the recovery of sums due by SRUS to those counterparties. SRD, following Irish and U.S. legal advice, is obliged to continue to honour its contractual obligations to SRUS during the period. As a result, the Company does have a material risk concentration in relation to counterparty risk, which the Board and Risk Committee continue to evaluate. It should be noted, however, that while SRUS is under the Rehabilitation Order, as of the date of this document, SRD continues to receive 100% of premium due from SRUS and continues to pay 100% of claims outstanding while SRUS is under the Rehabilitation Order.

C3.3 Risk mitigation

Counterparty risks are mitigated through diversification and ongoing monitoring of the investments.

C3.4 Risk sensitivity

The counterparty default SCR illustrates the level of risk arising from counterparty risk.

C4. Liquidity risk

C4.1 Risk exposure

Liquidity risk refers to the risk that undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due. The Company qualitatively assesses its exposure to liquidity risk as “Low” because of the high quality liquid assets held.

There has been no material change in the liquidity exposure of the company over the 2020 year.

Liquidity risks are assessed using a number of different methodologies, including:

- Sensitivities
- Key Risk Indicators
- Scenario testing

The Company has a negative BEL in respect of the YRT Treaty but does not rely upon this negative liability to offset any positive liability, so does not consider that any liquidity risk arises from this source.

C4.2 Risk concentration

The Company does not have any material risk concentrations in relation to liquidity risk.

C4.3 Risk mitigation

Liquidity risks are mitigated through the nature and sufficiency of assets held to match the liabilities. The Expected Profits in Future Premiums (“EPIFP”) equals US\$60,637.

C4.4 Risk sensitivity

As part of the ORSA process, the Company considers scenarios that could potentially result in liquidity difficulties. These scenarios have never resulted in any funding difficulties for the Company in the past.

C5. Operational risk

C5.1 Risk exposure

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.

The Company qualitatively assesses its exposure to operational risk as “Low” because of the limited number of transactions undertaken.

The Company is exposed to a range of operational risks, including:

- Key person risk
- Fraud
- IT risk
- Data security / cyber risk
- Regulatory and compliance risk
- Administration risk

Regulatory risk includes risks relating to the existing solvency position and the Company’s compliance with the existing legislation. It also includes potential changes to the regulatory framework, both in Ireland and in the U.S., which could impact upon the Company’s business model. The regulatory matters impacting SRUS during the Rehabilitation Order, and the Chapter 7 liquidation proceedings of the Company’s shareholder, SALIC, continue to have an adverse impact on operations of the Company.

The Board of SRD believe that there are no options available to SRD and any of them that might materially improve the Company's situation are outside of the control of the Board and depend on the outcome of the current processes at SRUS and SALIC. The Company does not have sufficient resources to continue a stand-alone basis indefinitely. The Board has been, and remains, actively engaged either directly or through the Company's advisors in exploring all potential options available in the circumstances to achieve the primary objective to remove the two remaining treaties (the Penn Mutual Life Treaty and the YRT Treaty) from the balance sheet of the Company as soon as possible. This would then allow the Company to seek revocation of its authorisation as a reinsurance undertaking from the Central Bank and ultimately wind-down the Company through a solvent liquidation.

In that regard, the Board and SRD are being advised by William Fry, its legal advisers in Ireland, on matters of relevant Irish law, and by Cozen O'Connor (solicitors in Delaware) on US law matters arising from the rehabilitation of SRUS (including engaging with counsel for the Receiver) and arising from the SALIC liquidation in US Bankruptcy Court. The Board and SRD are also taking financial advice from Milliman and PwC as its actuarial and tax advisers, respectively, with respect to some of the options referred to herein (in addition to providing general and ongoing advice to SRD).

In addition to seeking a viable solution to achieve the desired aim of a solvent wind-down of the Company, the Board is also currently managing the risks faced by the Company through the following actions:

- Obtaining monthly reports from SRUS on the status of the pending/paid claims position on the YRT treaty to best position the Company to act in a timely and appropriate manner should material claims activity occur;
- Adhering to the Central Bank direction to the Company (set out at Appendix II) which instructed all out-of-scope expenditure and expenditure to other companies within the Scottish Re to be submitted to the Central Bank for review and approval prior to the processing of payment, along with a fifteen-day review period for claims payments;
- Obtaining regular updates from the Company's US legal counsel on court matters relevant to the rehabilitation of SRUS and to the liquidation of SALIC as they arise;
- Reviewing the mortality and lapse experience on a quarterly basis; and
- Monitoring the solvency position on a monthly basis.

These options and the managing of risks have been communicated to the Central Bank through continuous dialogue and correspondence from the Board including an Additional Analysis of Risk and Options document, prepared by the Board, which goes into detail on such options explored.

The Board is aware of this and is continuing to explore options available as soon as possible following any Scottish Re developments that would allow the opportunity to negotiate recapture or alternative support.

It is expected that the Company will not be liable for Irish corporation tax in the medium term due to significant historical tax losses. Financial projections of the business assume that no tax will be payable during the projection time horizon.

The following table summarises the capital requirements in respect of these risks, at year-end 2020 and 2019.

Operational Risk (US\$'000)	2020	2019	movement
Total Operational Risk	99	142	(43)

C5.2 Risk concentration

The Company does have some risk concentration given the reliance on certain key persons. The Company has considered these exposures and how best to manage the risks.

C5.3 Risk mitigation

The Company has a number of mitigants in place in relation to operational risk, including control activities, internal and external audit and contingency plans.

C5.4 Risk sensitivity

Given the nature of operational risks, the Company does not calculate any quantitative risk sensitivities. However operational risk is considered qualitatively in both the ORSA and the regular Risk Updates provided to the Risk Committee.

C6. Other material risks

Given the scale of the Company, there are exposures to the Scottish Re, which is relied upon for various support services. The two treaties are also with Scottish Re US, so that the exposure to Scottish Re is an important risk consideration. This has been magnified given the recent Scottish Re developments, which the Board are evaluating.

C7. Any other information

Coronavirus Disease (COVID-19)

The emergence of the outbreak of COVID-19 in the first quarter of 2020, which has been classified as a pandemic by the World Health Organization, introduced further uncertainty to the Company. With regards to the Company's technical provisions, the unearned premium reserve on the YRT Treaty, under the Company's financial statements as prepared under FRS's 102 and 103, establishes sufficient reserves to avoid the Company setting up a specific COVID-19 provision, as compared to the Solvency II balance sheet requirements, which, under the latter requirements, has a specific COVID-19 provision of approximately US\$553 thousand as of 31 December 2020. The YRT unearned premium reserve is greater than the Solvency II balance sheet best estimate liability and the COVID-19 provision combined, thereby providing the Company with a degree of prudence for any adverse deviation. As of 31 December 2020, the Company has sufficient capital while it continues to regularly monitor updated information on COVID-19 developments to determine if any action is required.

The Board appreciates that the outbreak of COVID-19 is a rapidly evolving risk and so will continue to monitor the outbreak and its repercussions on the global stage during 2021.

Section D: Valuation for Solvency Purposes

D1. Assets

The following table outlines the main categories of assets and their value as of year-end 2020 and year-end 2019 (in US\$'000):

Asset Category	2020	2019	Movement
Investments	9,533	10,721	(1,188)
Deposits with cedants	3,603	3,663	(60)
Reinsurance Receivables	0	521	(521)
Cash and Cash Equivalents	204	160	44
Other Assets	474	301	173
Total Assets	13,814	15,366	(1,552)

Financial assets measured at fair value are valued based on market prices at the valuation date, where a market price is available. Where a market price is not available then these assets are valued using observable inputs. The Company does not have any financial assets in this category that are valued using significant unobservable inputs.

The Company considers whether a market can be considered active taking into consideration a number of factors including:

- quoted prices readily and regularly available;
- those prices represent actual and regularly occurring market transactions on an arm's length basis; and
- Whether it is possible to trade without affecting the price.

Receivables and Other assets are generally valued at face value. Deposits with banks are valued at face value.

Deposits with cedants represents funds held by SRUS in relation to the Penn Mutual Life Treaty.

As part of the affiliated excess retrocession agreement for SRUS, the Company established a reserve credit trust in connection with these transactions for the benefit of the transaction counterparty, SRUS. As a result of the restrictions imposed in accordance with the terms of the affiliated excess retrocession agreement for SRUS and other agreements to which they relate, these assets are not available for general corporate purposes and are considered "restricted". Out of the total amount of financial investments at fair value and available-for-sale, US\$5,976,271 and US\$6,660,537 were restricted assets in the reserve credit trust, as of 31 December 2020 and 2019, respectively.

There are no material differences between the valuation bases, methods or assumptions used to value assets on a Solvency II basis and those used for FRS's 102 and 103 purposes.

There is no retrocession in place, and hence no reinsurance asset.

There are no leasing arrangements or investments in related undertakings.

The Company does not account for a deferred tax assets.

No changes were made to the recognition and valuation bases or estimations used during the period.

See S.02.01.02 Balance Sheet in Appendix I for further information.

D2. Technical provision

The table below outlines the technical provisions as of year end 2020 and year end 2019 in US\$'000s:

Technical Provisions	2020	2019	Movement
Unit Liability	3,603	3,663	(60)
Best Estimate Liability	2,698	2,472	226
Risk Margin	608	763	(155)
Pending Claims	1,250	1,950	(700)
Gross Technical Provisions	8,159	8,848	(689)

In the valuation of technical provisions, unit-linked liabilities are unbundled, and the unit liability is calculated as “technical provisions calculated as a whole”. The value of the unit-linked liability is set equal to the value of the matching assets. The technical provisions under Solvency II are equal to a BEL plus a Risk Margin.

The BEL is calculated by projecting forward the future income and outgo on the unit-linked policies and discounting the cashflows back to the valuation date. Article 77 of the Solvency II Directive states that the best estimate shall correspond to the probability-weighted average of future cash-flows and Recital 14 of the Delegated Regulations states that the projection should “take account of all uncertainties in the cashflows”. In 2020, the methodology used to calculate the Technical Provisions was reviewed to reflect the rehabilitation plan presented by the Receiver to the Court on 30 June 2020, and incorporates the probability of the insurers ceding business to SRUS recapturing their treaties, and the subsequent termination of the treaties between SRUS and SRD.

There is a significant value of the guarantee on the Penn Mutual Treaty on a Solvency II basis which is likely to be higher than the termination value. Therefore, no allowance is made for recapture of this treaty. The BEL in respect of the Penn Mutual Treaty is calculated on a stochastic basis in which scenarios are generated for future interest rate paths, and the value of the guarantee is calculated as the average of the cost across those scenarios.

In response to the COVID-19 pandemic in 2020, the Company has established a specific provision in the Solvency II Technical Provisions. The provision is calculated using population data, with some allowance for the difference in mortality between the general population and insured lives. The provision was US\$553,000 as of year-end 2020.

The risk margin is calculated using the cost of capital approach set out in the Directive. The steps involved in this calculation are set out below:

- Firstly, the Solvency II capital requirement relating to non-hedgeable risks is projected for each future year (until the expiry of all contracts);
- The SCR in each future year is then multiplied by the prescribed cost of capital rate (6% p.a.) to get the cost of holding the Solvency II capital requirement in each future year; and
- These cost-of-capital figures are then discounted to a single present value using the risk-free yield curve to determine the overall risk margin.

This projection involves the use of risk drivers to estimate the SCR for different risk sub-modules at each future time period rather than performing a full recalculation of the SCR for each sub-module at each point.

The main assumptions required to calculate the BEL are those relating to policyholder lapses and mortality. The mortality assumption is determined based on an investigation of the Company's experience over the past number of years. Lapse assumptions are determined based on group investigations of surrender experience, and past experience within SRD.

There are no management actions that impact directly upon the calculation of the technical provisions but there is a management action in place which impacts upon the calculation of the lapse SCR calculation and thus has a second-order impact on the risk margin. The management action in question states that premiums would increase in the event of claims exceeding premiums by more than 20% in any year from 2024 onwards.

The Company does not apply the matching adjustment, volatility adjustment or any transitional provisions. There is no retrocession in place and hence no reinsurance asset or liability.

The Company has not used any significant simplified methods to calculate technical provisions other than it is noted that a full stochastic model isn't used to evaluate the investment guarantee, but instead a series of deterministic runs are used to quantify the value of the liability.

Uncertainty of Technical Provisions

Uncertainty arises primarily in relation to the key assumptions specified above and the development of experience against these assumptions and probabilities. This uncertainty can be seen in the SCR amounts required in respect of lapse and mortality risk. The small number of lives insured under the treaties mean that there is a particular exposure to volatility of mortality results. The death of a small number of policyholders with large sums assured would significantly increase the expected payments under the treaties.

Given the events outlined under "Affiliated Business Matters", there is a material uncertainty that could affect the Company. The BEL makes allowance for one possible scenario which might arise. However, there are a range of other possible scenarios that could arise from the rehabilitation of SRUS.

Material Differences with the Financial Statements

The table below outlines the technical provisions included in the Solvency II balance sheet relative to those included in the financial statements as of 31 December 2020 and 31 December 2019 in US\$'000's:

	2020 Solvency II		2020 Financial Statements
Unit Liability	3,603	Life Assurance Provision	3,074
BEL	2,698	Technical Provisions	6,024
Risk Margin	608		
Pending Claims	1,250		
Total Technical Provisions	8,158	Total Technical Provisions	9,098

	2019 Solvency II		2019 Financial Statements
Unit Liability	3,663	Life Assurance Provision	4,441
BEL	2,472	Technical Provisions	5,658
Risk Margin	763		
Pending Claims	1,950		
Total Technical Provisions	8,848	Total Technical Provisions	10,099

There are significant differences in the technical provisions held. In the financial statements an Unearned Premium Reserve (“UPR”) is held in respect of the YRT Treaty, whereas under Solvency II, the BEL for this treaty reflects the profits expected to emerge in the future and a negative liability is held in respect of this treaty.

The aggregate Solvency BEL is positive when other elements including the guarantee reserve on the Penn Mutual Life Treaty and other provisions are included. No risk margin is held within the financial statements.

The assumptions are generally consistent between financial statements and Solvency II, with the financial statement assumptions containing some additional margins for prudence that are not included in the Solvency II best estimate assumptions.

See S.05.01.02, S.12.01.02 Life Forms in Appendix I for further information.

D3. Other liabilities

The other liabilities of the Company, excluding technical provisions, are shown in the following table as of 31 December 2020 and 31 December 2019, in US\$'000s. The table also shows the value of other liabilities shown in the financial statements.

	2020 Solvency II		2020 Financial Statements	
Reinsurance Payables	1,104	Reinsurance Payables	1,104	
Trade Payables	110	Trade Payables	110	
Total Other Liabilities	1,214	Total Other Liabilities	1,214	

	2019 Solvency II		2019 Financial Statements	
Reinsurance Payables	118	Reinsurance Payables	118	
Trade Payables	74	Trade Payables	74	
Total Other Liabilities	192	Total Other Liabilities	192	

Reinsurance and trade payables represent the face value of the amount owed to creditors and there are no differences compared to the values in the financial statements.

No Deferred Tax Liability is recognised given the historic tax losses available to offset any taxes arising on future profits.

There are no liabilities in respect of leasing arrangements or employee benefits.

There were no changes to the recognition and valuation bases used or on estimations during the reporting period. There are not any material assumptions or judgements made in relation to the recognition or valuation of the “Other Liabilities”.

D4. Alternate methods for valuation

The Company does not use any alternative methods for valuation of its assets.

D5. Any other information

The Company does not have any other material information on the valuation of assets or liabilities.

Section E: Capital Management

E1. Own funds

The following table outlines the Company's own funds as of 31 December 2020 and 31 December 2019 in US\$'000:

Own Fund Item	2020	2019	Movement
Ordinary Share Capital	1,250	1,250	-
Reconciliation Reserve	3,192	5,076	(1,884)
Total Own Funds	4,442	6,326	(1,884)

The Company only holds Tier 1 basic own funds. Therefore, the eligible amount of own funds to cover the SCR and Minimum Capital Requirements ("MCR") is US\$4.42 million. There are no own fund items subject to transitional arrangements and no deductions from own funds or restrictions affecting the availability of own funds.

The objective of own funds management is to maintain, at all times, sufficient own funds to cover the SCR and MCR with an appropriate buffer. These should be of sufficient quality to meet the eligibility requirements in Article 82 of the Delegated Regulation. The Company holds regular meetings of senior management, which are at least quarterly, in which the ratio of eligible own funds over SCR and MCR are reviewed.

The following table reconciles the Solvency II own funds to the shareholder equity shown in the financial statements for year-end December 2020 and December 2019 in US\$'000:

Reconciliation	2020	2019
Share Capital	1,250	1,250
Retained Earnings	2,252	3,825
Shareholder Equity Financial Statements	3,502	5,075
Remove FS technical provisions	9,099	10,099
Add SII Technical provisions	8,158	8,848
Solvency II Own Funds	4,443	6,326

The reconciliation reserve is effectively equal to the retained earnings in the financial statements plus all of the adjustments outlined above in moving from financial statements to own funds under Solvency II.

See S.23.01.01 Own funds in Appendix I for further information.

E2. Solvency Capital Requirement and Minimum Capital Requirements

Solvency Capital Requirement

The SCR and MCR figures at year-end 2020 and year-end 2019 (in US\$'000's) are as follows:

Capital requirements	2020	2019	Movement
SCR	3,197	3,922	(725)
MCR	4,418	4,044	374

The SCR is calculated using the standard formula and the split of the SCR by risk module is as follows:

Capital requirements (US\$'000's)	2020	2019	Movement
Market Risk	2,009	2,724	(715)
Underwriting risk	1,883	1,966	(83)
Counterparty risk	63	130	(67)
Operational	99	142	(43)
Diversification	(856)	(1,040)	184
SCR	3,198	3,922	(724)

The Company does not use any simplified calculations or any Company specific parameters in the calculation of the SCR. There are currently no capital add-ons applied by the regulator.

No loss absorbing capacity of deferred tax is recognised when calculating the capital requirements.

See S.25.01.21 & S.25.02.21 Basic Capital & SCR Requirement's in Appendix I for further information.

MCR Inputs

The inputs used in the calculation of the MCR are as follows:

- The technical provisions on the unit linked business (excluding the risk margin) is US\$6 million
- The total capital at risk US\$537 million.
- SCR amount as calculated for the Company. Details of the SCR amounts are set out above. The MCR is capped and floored at 25% and 45% of the SCR.
- The absolute floor of €3.6 million.

The absolute floor of €3.6 million, or US\$4.4 million, applies as at year-end 2020.

See S.28.01.01 Overall MCR Calculation in Appendix I for further information.

Material Movements in MCR and SCR over the year

Market risk reduced by US\$715 thousand during 2020. The spread risk has decreased from 2019 by US\$849 thousand. This is due to a reduction in the holding of Type II Securitizations, and the duration of the securitizations as they have a high capital change under Solvency II linked to duration. The interest rate risk has increased from 2019 by US\$181 thousand. The interest rate shock impacts both the assets and the liabilities on the balance sheet. There has been a significant fall in US interest rates over 2020. This has led to a reduction in the downward movement applied in the interest rate shock, with a more significant reduction in the shock at earlier durations.

Underwriting risk reduced over the year by US\$84 thousand. This is largely driven by a reduction in the mortality risk but is offset somewhat by an increase in the longevity risk. The mortality risk has decreased as the number of policies in the post-level term period, which have a higher mortality risk, has fallen significantly over the year. The longevity risk of the Company is driven by the value of the Penn Mutual Treaty Guarantee, which has increased since year end 2019.

The MCR has not changed over the year as the absolute floor applied at both points, but currency movements resulted in an increase in the amount in US dollars.

E3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirements

The Company does not use duration based equity risk sub-module in the calculation of the SCR.

E4. Difference between the standard formula and any internal model used

The Company does not use an internal model for its Solvency II calculations.

E5. Non-compliance with MRC and significant non-compliance with the SCR

There has been no non-compliance with the MCR or SCR during the year ending 31 December 2020.

E6. Any other information

There are no other material disclosures under capital management.

APPENDIX I

Annex I**S.02.01.02****Balance sheet**

	Solvency II value
	C0010
Assets	
Intangible assets	R0030
Deferred tax assets	R0040
Pension benefit surplus	R0050
Property, plant & equipment held for own use	R0060
Investments (other than assets held for index-linked and unit-linked contracts)	R0070 9,533,540
Property (other than for own use)	R0080
Holdings in related undertakings, including participations	R0090
Equities	R0100
Equities - listed	R0110
Equities - unlisted	R0120
Bonds	R0130 7,349,480
Government Bonds	R0140 -
Corporate Bonds	R0150 5,142,297
Structured notes	R0160
Collateralised securities	R0170 2,207,183
Collective Investments Undertakings	R0180 2,184,060
Derivatives	R0190
Deposits other than cash equivalents	R0200 -
Other investments	R0210
Assets held for index-linked and unit-linked contracts	R0220
Loans and mortgages	R0230
Loans on policies	R0240
Loans and mortgages to individuals	R0250
Other loans and mortgages	R0260
Reinsurance recoverables from:	R0270
Non-life and health similar to non-life	R0280
Non-life excluding health	R0290
Health similar to non-life	R0300
Life and health similar to life, excluding health and index-linked and unit-linked	R0310
Health similar to life	R0320
Life excluding health and index-linked and unit-linked	R0330
Life index-linked and unit-linked	R0340
Deposits to cedants	R0350 3,602,918
Insurance and intermediaries receivables	R0360
Reinsurance receivables	R0370
Receivables (trade, not insurance)	R0380
Own shares (held directly)	R0390
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400
Cash and cash equivalents	R0410 203,910

Any other assets, not elsewhere shown	R0420	474,328
Total assets	R0500	13,814,696
Liabilities		
Technical provisions – non-life	R0510	
Technical provisions – non-life (excluding health)	R0520	
TP calculated as a whole	R0530	
Best Estimate	R0540	
Risk margin	R0550	
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	2,046,789
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	2,046,789
TP calculated as a whole	R0660	
Best Estimate	R0670	1,526,062
Risk margin	R0680	520,727
Technical provisions – index-linked and unit-linked	R0690	6,111,876
TP calculated as a whole	R0700	3,602,918
Best Estimate	R0710	2,421,400
Risk margin	R0720	87,558
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	1,104,409
Payables (trade, not insurance)	R0840	109,756
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	-
Total liabilities	R0900	9,372,831

Excess of assets over liabilities

R1000	4,441,866
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S.05.01.01.02 Life

		Life reinsurance obligations	Total
		Life reinsurance	
		C0280	C0300
Premiums written			
Gross	R1410	2,531,246	2,531,246
Reinsurers' share	R1420		
Net	R1500	2,531,246	2,531,246
Premiums earned			
Gross	R1510	2,531,246	2,531,246
Reinsurers' share	R1520		
Net	R1600	2,531,246	2,531,246
Claims incurred			
Gross	R1610	2,532,392	2,532,392
Reinsurers' share	R1620		
Net	R1700	2,532,392	2,532,392
Changes in other technical provisions			
Gross	R1710	427,044	427,044
Reinsurers' share	R1720		
Net	R1800	427,044	427,044
Expenses incurred	R1900		190,020
Other expenses	R2500	 	1,403,924
Total expenses	R2600	 	1,593,944

Annex I
S.12.01.02
Life and Health SLT Technical Provisions

Technical provisions calculated as a whole

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole

Technical provisions calculated as a sum of BE and RM
Best Estimate

Gross Best Estimate

Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default

Best estimate minus recoverables from reinsurance/SPV and Finite Re - total

Risk Margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Risk margin

Technical provisions - total

Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
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C0100

C0150

R0010	3,602,918	3,602,918
R0020		
R0030	3,947,462	3,947,462
R0080		
R0090	3,947,462	3,947,462
R0100	608,295	608,295
R0110	-	-
R0120		
R0130		
R0200	8,158,606	8,158,606

Annex I

S.23.01.01

Own funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35

Ordinary share capital (gross of own shares)

Share premium account related to ordinary share capital

Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings

Subordinated mutual member accounts

Surplus funds

Preference shares

Share premium account related to preference shares

Reconciliation reserve

Subordinated liabilities

An amount equal to the value of net deferred tax assets

Other own fund items approved by the supervisory authority as basic own funds not specified above

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions

Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

Unpaid and uncalled ordinary share capital callable on demand

Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand

Unpaid and uncalled preference shares callable on demand

A legally binding commitment to subscribe and pay for subordinated liabilities on demand

Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC

Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC

Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC

Other ancillary own funds

Total ancillary own funds

	Total	Tier 1 - unrestricted
	C0010	C0020
R001 0	1,250,000	
R003 0		
R004 0		
R005 0		
R007 0		
R009 0		
R011 0		
R013 0	3,191,866	3,191,866
R014 0		
R016 0		
R018 0		
R022 0		
R023 0		
R029 0	4,441,866	4,441,866
R030 0		
R031 0		
R032 0		
R033 0		
R034 0		
R035 0		
R036 0		
R037 0		
R039 0		
R040 0		

Available and eligible own funds

Total available own funds to meet the SCR

Total available own funds to meet the MCR

Total eligible own funds to meet the SCR

Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

R050		
0	4,441,866	4,441,866
R051		
0	4,441,866	4,441,866
R054		
0	4,441,866	4,441,866
R055		
0	4,441,866	4,441,866
R058		
0	3,196,899	
R060		
0	4,417,560	
R062		
0	139%	
R064		
0	101%	

Reconciliation reserve

Excess of assets over liabilities

Own shares (held directly and indirectly)

Foreseeable dividends, distributions and charges

Other basic own fund items

Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

Expected profits included in future premiums (EPIFP) - Life business

Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

	C0060	
R070		
0	4,441,866	
R071		
0		
R072		
0		
R073		
0	1,250,000	
R074		
0		
R076		
0	3,191,866	
R077		
0	60,637	
R078		
0		
R079		
0	60,637	

Annex I

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

- -

Market risk

Counterparty default risk

Life underwriting risk

Health underwriting risk

Non-life underwriting risk

Diversification

Intangible asset risk

Basic Solvency Capital Requirement

Calculation of Solvency Capital Requirement

Operational risk

Loss-absorbing capacity of technical provisions

Loss-absorbing capacity of deferred taxes

Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

Solvency capital requirement excluding capital add-on

Capital add-on already set

Solvency capital requirement

Other information on SCR

Capital requirement for duration-based equity risk sub-module

Total amount of Notional Solvency Capital Requirement for remaining part

Total amount of Notional Solvency Capital Requirements for ring fenced funds

Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios

Diversification effects due to RFF nSCR aggregation for article 304

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
R0010	2,008,774		-
R0020	62,778		
R0030	1,882,669		
R0040			-
R0050			-
R0060	856,378		
R0070			
R0100	3,097,843		

C0100

R0130	99,056
R0140	
R0150	
R0160	
R0200	3,196,899
R0210	
R0220	3,196,899
R0400	
R0410	
R0420	
R0430	
R0440	

S.28.01.01.01

Linear formula component for non-life insurance and reinsurance obligations

		MCR components
		C0010
MCR _{NL} Result	R0010	

S.28.01.01.02**Z Axis:****VG/Solvency II****Background information**

		Background information	
		Net (of reinsurance/SP V) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

S.28.01.01.03

Linear formula component for life insurance and reinsurance obligations

		C0040
MCR _t Result	R0200	450,085

S.28.01.01.04

Z Axis:

VG/Solvency II

Total capital at risk for all life (re)insurance obligations

		Net (of reinsurance/SP V) best estimate and TP calculated as a whole	Net (of reinsurance/SP V) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230	6,024,319	
Other life (re)insurance and health (re)insurance obligations	R0240	1,526,062	
Total capital at risk for all life (re)insurance obligations	R0250		536,952,861

S.28.01.01.05

Z Axis:

VG/Solvency II

Overall MCR calculation

		C0070
Linear MCR	R0300	450,085
SCR	R0310	3,196,899
MCR cap	R0320	1,438,605
MCR floor	R0330	799,225
Combined MCR	R0340	799,225
Absolute floor of the MCR	R0350	4,417,560
Minimum Capital Requirement	R0400	4,417,560

APPENDIX II



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Private and Confidential

By Email and registered post

Mr Alex Tully
Scottish Re (Dublin) DAC
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Fitzwilliam Place
Dublin 2

13 November 2020

TAKE NOTICE: This letter contains a direction pursuant to section 45 of the Central Bank (Supervision and Enforcement) Act 2013 (the “2013 Act”). This is important correspondence and requires immediate attention.

Re: Scottish Re (Dublin) DAC (“Scottish Re Dublin” or the “Company”) – Direction pursuant to section 45 of the 2013 Act

Dear Mr Tully,

I refer to the Central Bank of Ireland’s (“Central Bank”) letter of 28 October 2020 (“Minded to Direction Letter”) in which the Central Bank informed the Company that it was “minded to” direct the Company, pursuant to Section 45 of the 2013 Act.

The Central Bank invited Scottish Re Dublin to make a submission in writing for consideration by 13 November, providing any information that Scottish Re Dublin deemed relevant. In this regard, the Central Bank acknowledges your submission dated 29 October 2020 and notes that the Company has no objection to the proposed directions as set out in the Minded to Direction Letter.



Section A - Background:

The Central Bank has had ongoing regulatory engagement with the Company in relation to developments within the Company's group and, in particular, the commencement of liquidation proceedings in respect of the Company's direct parent, Scottish Annuity & Life Insurance Company (Cayman) Ltd. ("SALIC"), and the placing into rehabilitation of Scottish Re (U.S) Inc. ("SRUS"), the counterparty to the Company's two in force reinsurance treaties.

In consequence of those developments and related concerns regarding the future capital position and business strategy of the Company, the Central Bank issued the Company with a regulatory direction on 28 November 2019 (the "Payments and New Business Direction"), requiring that Scottish Re Dublin (a) provide the Central Bank with at least 15 days advance notice of certain proposed payments or transfer of assets, in accordance with the wording of that direction, and (b) cease writing all new contracts of reinsurance.

The Central Bank continues to have ongoing material concerns regarding the future capital position and business strategy of the Company. In particular, the Central Bank is concerned that:

1. The Company does not appear to have access to additional capital in the event of large unexpected claims occurring under its reinsurance treaties with SRUS; and
2. The Company does not appear to have a sustainable business model over the short, medium or long term due to the uncertainty of the SRUS rehabilitation process and the continuation of the Company's obligations under its reinsurance treaties with SRUS.

These concerns have only heightened in recent months following notifications from the Company on 3rd July 2020, 4th August 2020, 3rd September 2020 and 13th October 2020 that there was a risk of the Company no longer complying with its minimum capital requirement ("MCR").

Section B – Key Concerns:

Capital

The Central Bank has material concerns about the Company's future capital position. These concerns are due to:

1. The occurrence of any large unexpected death claim under the Company's reinsurance treaties with SRUS would cause the Company to breach its MCR.



2. The Company has notified the Bank on four occasions, in July, August, September and October 2020 that there is a risk of the Company no longer complying with its MCR.
3. The Company's financials are in USD. This exposes the Company to FX movements which could increase the MCR of the Company.
4. The Net Worth Maintenance Agreement ("NWMA") between the Company and SALIC provided that, during the term of that agreement, SALIC shall cause Scottish Re Dublin to have the minimum capital surplus and/or solvency to support its business operations and obligations. This would have provided the Company with additional capital from its parent, however the NWMA can no longer be relied upon due to the commencement of liquidation proceedings in respect of the parent.
5. As the Company does not appear to have access to additional capital, the Company would not be in a position to restore eligible own funds to at least the level of the MCR as per Regulations 139 and 148 of the European Union (Insurance and Reinsurance) Regulations 2015 (SI No. 485 of 2015).
6. The SRUS rehabilitation process is ongoing and SRUS's receiver has now submitted a proposed Third Amended Order to Show Cause regarding SRUS's rehabilitation plan. If approved, it would require that the receiver submit any modifications to the rehabilitation plan by 16 March 2021, and for a hearing on the modified plan sometime after 15 May 2021. The continued extensions to finalisation of SRUS's rehabilitation plan create further uncertainty with regard to the future capital position of the Company.

Business Strategy

The Central Bank has concerns about the Company's business model and strategy. These concerns are due to:

1. The Company does not appear to have a sustainable business model over the short, medium or long term due to the uncertainty of the SRUS rehabilitation process and the continuation of the Company's obligations under the two in force treaties with SRUS.
2. The Company does not have the ability to require the recapture of one or both of the treaties ceded to it by SRUS, as the right to cause a recapture is under the sole control of SRUS.

Section C - Direction to Scottish Re Dublin:

Having regard to the foregoing, and being of the opinion that it is necessary to do so, pursuant to the Central Bank's power to give directions under Section 45(1) of the 2013 Act, in the interests of the proper



and effective regulation of financial service providers and being satisfied that one or more of the circumstances specified in subsections 45(2)(b) and (c) of the 2013 Act exists, the Central Bank hereby directs Scottish Re Dublin, pursuant to section 45(3)(a), (d) and (e) of the 2013 Act in the following terms:

1. Scottish Re Dublin shall not make any payments¹ or transfer any of its assets to any person, including but not limited to its directors (except for payments related to reasonable directors' fees and salaries), direct or indirect shareholders, or any related company² of Scottish Re Dublin or a related company's shareholders without first notifying the Central Bank of its intention to do so. The foregoing notifications shall be provided to the Central Bank at least 15 calendar days in advance.
2. Scottish Re Dublin shall not write any new contracts of reinsurance.

The above regulatory direction will be effective from 28 November 2020 (i.e. upon the expiry of the Payments and New Business Direction) for a period of 12 months, unless revoked earlier by the Central Bank in writing.

Section D - Failure to Comply:

Failure to comply with a regulatory direction, where imposed, could constitute a "prescribed contravention" for the purposes of the Administrative Sanctions Procedure in Part IIIC of the Central Bank Act 1942 (the "1942 Act") and could expose the Company, or persons concerned in its management, to administrative sanctions.

In addition, pursuant to Section 47 of the 2013 Act, the Central Bank may, where it is of the opinion that a direction under Section 45(1) of the 2013 Act has not been complied with, apply to the High Court for an order requiring the firm to comply with the direction. This is without prejudice to any other actions which the Central Bank may take for non-compliance with a regulatory direction.

A direction issued under Section 45(3)(c)-(g) of the 2013 Act is an appealable decision for the purposes of Part VIIA of the 1942 Act. A regulated financial service provider to whom a direction is given under Section 45(3)(a)-(b) of the 2013 Act may apply to the High Court for an order setting aside the direction.

¹ Including (but not limited to) claims payments, but excluding: (i) office expenses in the ordinary course of business, (ii) staff salaries in the ordinary course of business and (iii) any other non-material payments which are reasonably necessary for the sound and prudent operation of its reinsurance business.

² A related Company means a related company as defined in Section 2 of the Companies Act 2014.



Section E - On-going Compliance:

It is the responsibility of each regulated financial service provider to ensure compliance with its legal and regulatory requirements at all times. The Central Bank maintains its right to use its regulatory, enforcement and other powers, including but not limited to its administrative sanctions powers under Part IIIC of the 1942 Act.

If you have any questions in relation to the above, please do not hesitate to contact Teresa Ready on +3531 224 6204 or by email to Teresa.Ready@centralbank.ie.

Yours sincerely,

^{P.}
A handwritten signature in black ink that reads "Teresa Ready".

Alan Boland
Head of Function – Cross Border
Insurance Supervision