

SCOTTISH RE (DUBLIN) DAC
SOLVENCY AND FINANCIAL CONDITION REPORT

As at 31 December 2019

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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”), an affiliate of the Company and part of the structure of the Scottish Re group of companies (the “Group”) the Company was originally created under. The Company only assumes business from current and former affiliates of the Group. 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 Treaty 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 an affiliate within the Group structure.

SRD also has in place the following intra-group agreements with entities within the Scottish Re group of companies (the “Group”):

- Net Worth Maintenance (“NWM”) Agreement dated 1 January 2002 between Scottish Annuity & Life Insurance Company (Cayman) Ltd. (“SALIC”), in liquidation (as explained further later in this document), and SRD (as amended);
- Support Service Agreement dated 1 January 2002 between SRUS, in rehabilitation (as explained further in this document) and SRD;
- Support Service Agreement dated 1 January 2003 between Scottish Holdings, Inc. (“SHI”) and SRD; and
- Support Service Agreement dated 1 June 2017 between Scottish Re Life (Bermuda) Limited (“SRLB”) and SRD. SRLB is a subsidiary of SRUS.

Please refer to the section , “Affiliated Business Matters” with regards to the Company’s inability to rely on the NWM Agreement following events concerning SALIC.

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 Group of companies (the “Group”) to the Central Bank for review and approval prior to the processing of any expenditure, along with a fifteen day review period.

As is allowed under Financial Reporting Standard 101, which the Company reported under at the time, the Company reclassified its capital contributions to the retained loss account, creating a revenue reserve account. Effective 13 December 2016, following approval from the Central Bank, SRD transferred all of the capital contributions made to date at the time, US\$533,699,585.18, to the retained earnings account, which created a positive revenue reserve account of US\$9,987,408. This reclassification process enabled SRD to declare a distribution by way of return on capital to its parent company and sole shareholder (as the above meets the criteria for distributable profits under the Act), SALIC, of US\$7 million. The distribution to owner of US\$7 million was approved by the Central Bank on 13 December 2016, and the distribution was completed on 20 January 2017.

Affiliated Business Matters

SRGL Developments

On 17 May 2017, SRD’s ultimate parent company, Scottish Re Group Limited (“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 permanent 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 (when SRGL had staff before they were reassigned to different entities within the Group). 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, 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 results in a number of 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 Company's Board of Directors (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 not able to rely on the benefit of the NWM Agreement, given the current circumstances. However, as it stands, the Company has no immediate need to request the support of SALIC under the NWM Agreement.

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

The Company's shareholder, SALIC, through the court appointed trustee, is currently exploring options for the Company, which includes a possible sale. As of 25 March 2020, to the knowledge of the Company, no material progress has been made in this regard.

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 23 March 2020, the Receiver filed with the Court a request for a 90-day extension of time, to 30 June 2020, in which to file a Plan of Rehabilitation for SRUS or otherwise abandon those efforts in favor of liquidation. As of 25 March 2020, the Court has not provided a response to the Receiver.

The Receiver and his staff believe it is reasonable to work towards the development of a Plan of Rehabilitation for SRUS with the goal of returning SRUS to solvency and emerging from rehabilitation. There can be no assurances that this process will be successful.

The Rehabilitation Order results in uncertainty regarding the future of the treaties with SRUS and creates difficulties in seeking to wind-up the treaties, given that the Receiver is unlikely at this stage of the SRUS proceedings to take any action or enter into any agreement that could be interpreted as treating SRD favourably, relative to SRUS’s other counterparties. While SRUS is under the Rehabilitation Order, as of 25 March 2020, SRD continues to receive 100% of premium due from SRUS and continues to pay 100% of claims outstanding.

While the exact timing of events concerning SRUS and their impact on SRD remains unclear, the Board currently does not expect the period of rehabilitation of SRUS to continue beyond 2020, and anticipates more clarity on the position of SRUS and how this will impact SRD during 2020. The reasons are as follows:

- There appears to be growing pressure to bring the matter concerning SRUS to a conclusion soon (i.e., for the Receiver either to file a plan of rehabilitation or otherwise move to a liquidation). The rehabilitation has already gone on for one year, a considerable amount of time beyond the initial expected 120-day period. The Board notes that the Delaware Court has instructed the Receiver to submit a proposed plan of rehabilitation of SRUS not later than 31 March 2020, or else inform the Court that the rehabilitation of SRUS will be converted into a liquidation. The Court likely will only extend the deadline of the rehabilitation of SRUS if the Receiver provides to the Court good reason for such an extension. The Board currently expects the Receiver will file a plan of rehabilitation, however given the current pace of the proceedings, final approval and implementation of such a plan could be expected to take some longer period of time;
- The potential exists that the underlying business to which the SRD YRT Treaty with SRUS relates could be terminated or recaptured as part of any plan of rehabilitation or liquidation of SRUS; and

- Once the position of SRUS becomes clearer, either through a plan of rehabilitation or liquidation, and with the period of rehabilitation concluded, the Board expects that the SALIC Trustee will look to accelerate the means to liquidate or sell SRD in order to return capital to the SALIC estate at the earliest convenience. SRD's surplus assets likely are material to the SALIC estate and the SALIC Trustee presumably will seek to secure those assets for the benefit of its estate. Upon a cessation of reinsurance from SRUS to SRD, either pursuant to a rehabilitation or a liquidation of SRUS, the SALIC Trustee could be expected to wind down SRD and distribute excess remaining assets to the SALIC estate (however, the Board understands that the SALIC Trustee is actively seeking to find a buyer of SRD as an alternative solution).

The key risk on SRD's Statement of Financial Position is the occurrence of a number of large individual death claims. The Company's excess assets above the minimum capital requirement is equal to approximately US\$2.3 million and an individual death claim could amount to US\$2.5 million under the terms of the YRT Treaty. It should be noted that claims on the YRT Treaty have not reached such a level in the past five years and that this is not considered likely to happen, but it has to be considered as possible given the exposure to individual claims.

It should also be noted that in the event of the occurrence of a number of large claims, the Company is still likely to have sufficient assets to meet its liabilities, even if it is not able to meet the minimum capital requirement.

SRD no longer has the option of receiving capital from its parent company, SALIC, as SALIC has entered liquidation proceedings in Bankruptcy Court.

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.

SRD has considered the possibility of reinsuring its exposure on the individual lives in the market but the Group situation, as well as the small scale of the treaty, makes this possibility extremely unlikely.

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.

SRD currently has sufficient capital to meet the expected outcome of either of these scenarios, subject to the key risk that a number of large individual claims arise within the period during which this is being decided. The Company does not have additional capital available to it and the Group no longer has control of the decision to novate/recapture the treaties, given the rehabilitation process. Therefore, it is considered that the Company would not have any options available to it in such a scenario in order to recover its solvency position. In such a scenario the Company's Own Funds would fall below the SCR and MCR (both as defined herein) giving rise to the possibility that the Company's insurance authorisation would be revoked.

It is unclear what would happen to the SRUS treaties in the situation where SRUS is under the control of the Court appointed Receiver and the Company's insurance authorization has been revoked by the Central Bank. Should such a scenario result in the treaties being terminated and SRUS receiving the termination amounts specified in the treaties, it is likely that SRD would have sufficient capital available to meet the termination amounts even if it does not have sufficient capital to continue to meet its solvency capital requirements.

Given the risks facing the Company, the Central Bank issued a direction 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.

Approval

This Solvency and Financial Condition Report ("SFCR") was approved by the Company's Board on 25 March 2020.

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 group supervisor 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 advisor of the Company are:

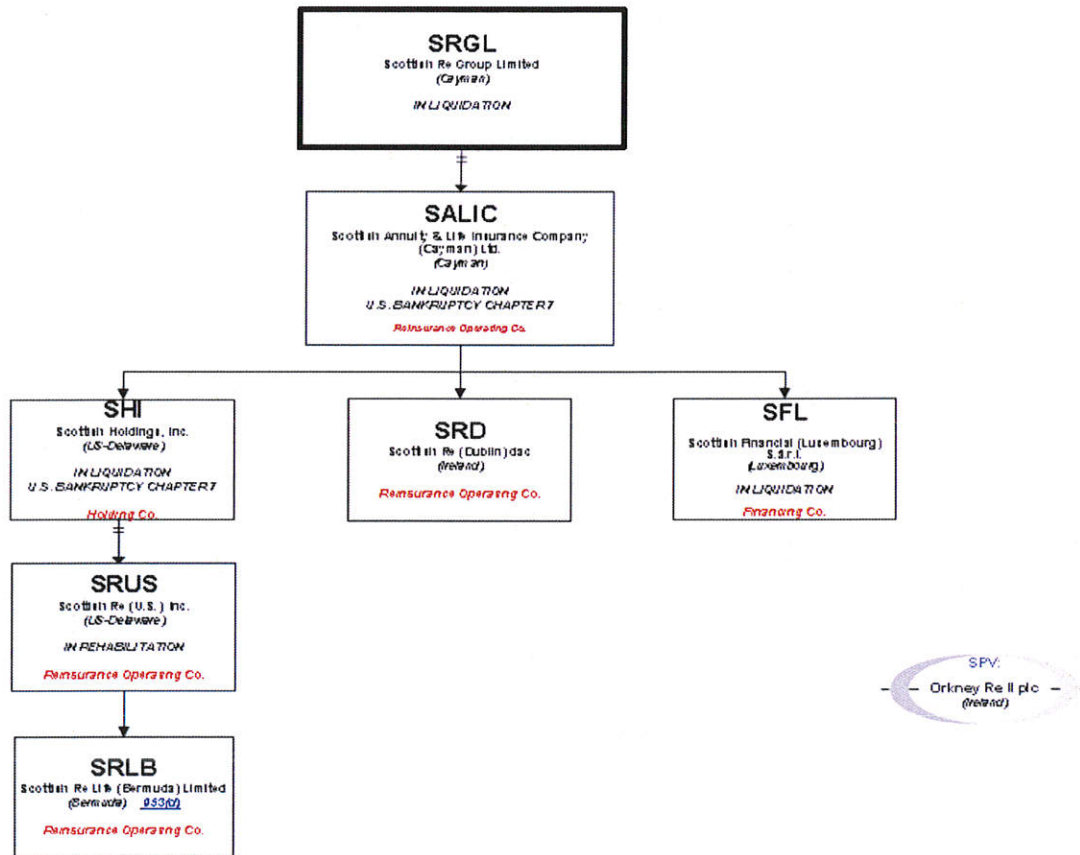
Ireland
William Fry Solicitors
2 Grand Canal Square
Dublin 2
Republic of Ireland

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 plc 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 2019 AND 2018 (\$'000):			
	2019	2018	Movement
Net premium written - YRT	3,545	3,469	76
Claims pending/paid	(2,950)	(2,346)	(604)
Change in provision for claims	(304)	(372)	68
Underwriting Profit for the year	290	751	(461)

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

SRD IRISH RESERVES AS OF 31 DECEMBER 2019 AND 2018 (\$'000):			
	2019	2018	Movement
Account value	3,663	3,570	93
Additional guarantee	1,994	1,830	164
Total (Penn Mutual Life Treaty)	5,657	5,400	257
Unearned premium reserve	1,833	1,712	121
Incurred but not reported reserve	659	663	(4)
Paid/pending claims	1,950	800	1,150
Total (Guaranteed Level Premium Term Life Treaty)	4,442	3,175	1,267
Grand Total	10,099	8,575	1,524

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 2019 and 2018 (US\$'000):

	<u>2019 US\$</u>	<u>2018 US\$</u>
Interest on financial investments	470	448
Interest credited on deposits with cedent	(140)	(137)
Investment management charges	(10)	(12)
Unrealised losses on investments	(12)	(21)
Profit/(loss) on embedded derivative	237	(143)

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

Asset class	2019	% total	2018	% total
Cash and cash equivalents	160	1%	134	1%
Deposits to cedants	3,663	25%	3,570	27%
Deposits other than cash equivalents	2,304	16%	463	4%
Government bonds	145	1%	142	1%
Corporate bonds	5,992	41%	6,635	46%
Collateralised securities	2,279	16%	2,210	17%
Total	14,543	100%	13,154	100%

A4. Performance of other activities

Operating expenses for the year totalled US\$1,392,533 (US\$1,183,178); 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 2019 and 2018 were as follows (US\$'000):

	2019	2018	Movement
Gross premium written - YRT	3,545	3,469	76
Loss on ordinary activities	(565)	(308)	(257)
Deposits with ceding undertaking	3,663	3,570	93
Financial investments at fair value	2,625	934	1,693
Available for sale financial assets	8,096	8,517	(421)
Net technical provisions	10,099	8,575	1,524

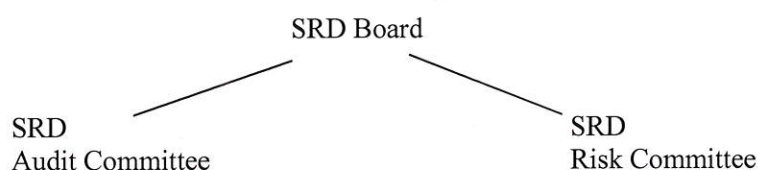
Section B: System of Governance

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), TJ Keller (Executive Vice President, Chief Financial Officer of SRUS), and Karina Lynch (CEO of SRD). Karina Lynch also acts as Compliance Officer of the Company and is based in Ireland.

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 reapproved in 2019. 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 Group affiliates in the U.S. 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 5 November 2019.

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 who is an employee of the Group and 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
Wilton Secretarial	Company Secretary	Republic of Ireland
Brendan J McLoughlin	Payroll Services	Republic of Ireland
Group	Underwriting, Legal, Tax, HR	USA/Bermuda

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 the Group 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, 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 2019, 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\$3,663,207 of reserves (as at 31 December 2019) 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\$6,660,537 (as at 31 December 2019) covering a reserve requirement of US\$4,335,851. 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.

SRD is taking legal advice from U.S. lawyers in respect of its engagement with the Commissioner so as to assist it in recovering the excess in the Trust Account. However, 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, even if SRD fails to secure an immediate return of the excess monies in the Trust Account, 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 solvency ratio at 150% on a Solvency II basis.

As stated earlier, SRD has a number of intra group agreements in place with the Group. 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 the Group service providers under these agreements, but SRD is undertaking a further review of the terms of the agreements to ensure it can plan for appropriate contingencies in the event that services are not provided (either to an adequate level of service delivery or at all) pursuant to those agreements.

Assuming the Central Bank revokes its direction dated 28 November 2019, where it stated that the Company shall cease writing all new contracts of reinsurance, the Company's Risk Appetite will be reviewed prior to writing any new treaties to ensure that the Company is comfortable with the risks presented by the new treaty.

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 2019 and year-end 2018. The figures are calculated on a standard formula basis.

Life Underwriting Risk (\$'000)	2019	2018	Movement
Lapse Risk	815	1,144	(329)
Mortality Risk	1,190	1,088	102
Expense Risk	402	433	(31)
Catastrophe Risk	577	750	(173)
Longevity Risk	165	142	23
Diversification	(1,183)	(1,315)	132
Total Life Underwriting Risk	1,966	2,242	(276)

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 2019 and 2018 with higher experienced mortality caused by a small number of large claims in those years. While the number of claims in those years are low, the dollar value has been significant. The Company has 2% of the policies in force as of September 30, 2019 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 2019 and 2018.

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. However, as it stands, the Company has no immediate need to request the support of SALIC under the NWM Agreement.

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\$1.2 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 2019 and year-end 2018. The figures are calculated on a standard formula basis.

Market Risk (\$'000)	2019	2018	Movement
Spread Risk	2,612	1,160	1,452
Currency Risk	350	437	(87)
Interest Rate Risk	6	189	(183)
Concentration Risk	30	134	(104)
Diversification	(274)	(547)	273
Total Market Risk	2,724	1,373	1,351

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 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\$160,163 cash as at 31 December 2019 (2018: US\$134,050) and a reinsurance receivable of US\$521,68 (2018: US\$697,214). 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 2019 and 2018.

Counterparty Risk (\$'000)	2019	2018
Type 1	130	320
Type 2	-	-
Diversification	-	-
Total Counterparty Risk	130	320

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 has 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 2019 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\$0.2 million.

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 very limited 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 on 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 (including engaging with the SALIC Trustee and its counsel). 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 III) which instructed all out of scope expenditure and expenditure to other companies within the Scottish Re 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;
- 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 quarterly 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 Group 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 2019 and 2018.

Operational Risk (\$'000)	2019	2018	movement
Total Operational Risk	142	139	3

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 Group, which is relied upon for various support services. The two treaties are also within the Group, so that the exposure to the group is an important risk consideration. This has been magnified given the recent Group developments, which the Board are evaluating.

C7. Any other information

Coronavirus Disease (COVID-19)

The emergence of the outbreak of the Coronavirus Disease (COVID-19) (“COVID-19”) subsequent to 31 December 2019 and in recent weeks, which has now been classified as a pandemic by the World Health Organization, has introduced further uncertainty to the Company.

With regards to the year-end technical provisions, as of 25 March 2020, the Board notes that no deaths in respect COVID-19 have been reported to the Company. The Company holds additional capital in its SCR in respect of pandemics, and to date, based on the statistics of the mortality rate of COVID-19 currently available, the Company’s catastrophe capital level provides adequate protection at this time to withstand such pandemic risk (under the Company’s catastrophe risk sub-module). However, the circumstances of the Company with a small number of lives and variations of sum assured sizes mean that some additional risks arise, particularly in relation to lives with higher sums assured.

The outbreak of COVID-19 and the responses by governments around the world in dealing with it has also had a volatile effect on the global investment markets. The Board and Management continues to monitor the asset shocks and the widening of spreads on the Company's investment portfolio as the investment markets respond to the spread of COVID-19. As of 25 March 2020, the Company's investment portfolio can withstand such shocks given its modest exposure to certain sectors of the market that are currently experiencing the most significant negative volatility shifts, such as the travel/leisure and energy sectors.

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 2020.

Section D: Valuation for Solvency Purposes

D1. Assets

The following table outlines the main categories of assets and their value as at year-end 2019 and year-end 2018 (in \$'000):

Asset Category	2019	2018	Movement
Investments	10,721	9,451	1,270
Deposits with cedants	3,663	3,570	93
Reinsurance Receivables	521	697	(176)
Cash and Cash Equivalents	160	134	26
Other Assets	301	120	181
Total Assets	15,366	13,972	1,394

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\$6,660,537 and US\$5,975,082 were restricted assets in the reserve credit trust, as at 31 December 2019 and 2018, 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 at year end 2019 and year end 2018 in \$’000s:

Technical Provisions	2019	2018	Movement
Unit Liability	3,663	3,570	93
Best Estimate Liability	2,472	1,179	654
Risk Margin	763	766	(3)
Pending Claims	1,950	800	1,150
Gross Technical Provisions	8,848	6,315	1,864

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. A deterministic projection is used for the YRT Treaty and the BEL for the Penn Mutual Life Treaty is evaluated through the use of a number of deterministic scenarios to which probabilities are attached to reflect the possibility of varying market conditions. The BEL must correspond to the probability-weighted average of future cash-flows, with the probabilities reflecting the uncertainties in the cashflows. Given the SRUS developments, as detailed having regard to developments outlined under “Affiliated Business Matters”, the BEL in respect of the YRT Treaty in at year-end 2018 had been amended to incorporate a scenario in which the treaty is recaptured by SRUS following the rehabilitation period. This methodology has been retained for year-end 2019.

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 at 31 December 2019 in \$'000's:

	Solvency II		Financial Statements
Unit Liability	3,663	Unit Liability	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 technical provisions have been amended to incorporate reflection of the possibility that the treaties with SRUS might not continue indefinitely. The BEL in respect of the YRT Treaty¹ has been amended to reflect two scenarios:

- The first scenario envisages SRUS exiting rehabilitation successfully and future premiums and claims continue being paid in full as per the terms of the treaty.
- The second scenario envisages SRUS being liquidated following the rehabilitation period and the termination amounts specified in the terms of the treaty being paid over to SRUS.

Equal probability has been assigned to the two scenarios.

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.

¹ No change has been made to the BEL for the Penn Mutual Life Treaty and the BEL effectively assumes that this treaty continues with SRD. This is done because the Penn Mutual Life Treaty generates losses and is potentially less likely to be recaptured.

D3. Other liabilities

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

	Solvency II		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 at 31 December 2019 in \$'000:

Own Fund Item	2019	2018	movement
Ordinary Share Capital	1,250	1,250	0
Reconciliation Reserve	5,076	6,221	(1,145)
Total Own Funds	6,326	7,471	(1,145)

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 \$6.33 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 yearend December 2019 and December 2018 in US\$’000:

Reconciliation	2019	2018
Share Capital	1,250	1,250
Retained Earnings	3,825	3,961
Shareholder Equity Financial Statements	5,075	5,211
Remove FS technical provisions	10,099	8,575
Add SII Technical provisions	8,848	6,315
Solvency II Own Funds	6,326	7,471

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 2019 and year-end 2018 (in \$’000’s) are as follows:

Capital requirements	2019	2018	movement
SCR	3,922	3,161	761
MCR	4,044	4,122	(78)

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

Capital requirements (\$'000's)	2019	2018	movement
Market Risk	2,724	1,373	1,351
Underwriting risk	1,966	2,242	(276)
Counterparty risk	130	320	(190)
Operational	142	139	3
Diversification	(1,040)	(913)	(127)
SCR	3,922	3,161	761

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\$5.7 million
- The total capital at risk US\$640 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 million, applies as at year-end 2019.

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 increased by US\$1,351k during 2019. The spread risk has increased from 2018 by US\$1,452k. This is due to a correction in the calculation of the spread risk for Type II Securitizations. There was a reduction in currency and interest rate risk, given the change in the technical provisions which reduced the expected duration of the inforce exposures. Regarding the interest rate risk, the assets held by SRD at year-end 2019 are less sensitive to movements in interest rates compared to year end-2018. The concentration risk also reduced over the year, as a full look-through approach is now used. The interest rate risk decreased by US\$183k, the currency risk reduced by US\$87k and the concentration risk reduced by US\$104k. These were the most significant movements in the market risk modules.

Underwriting risk reduced over the year by US\$276k. This is largely driven by a reduction in the lapse and catastrophe risk. The application of the novation scenario has impacted the lapse and catastrophe risk. It is assumed that there will be a three month period until it is possible to novate the YRT Treaty. However, as the rehabilitation of SRUS was announced in March last year, six months of cashflows were assumed to occur at year-end 2018. At year-end 2019, only three months of cashflows have been included as per the definition of the scenario. This impact is more acute for the catastrophe risk compared to others, as the stress is applied instantaneously.

The MCR didn't change over the year as the absolute floor applied at both points, but currency movements resulted in a reduction 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 MRC or SCR during the year ending 31 December 2019.

E6. Any other information

There are no other material disclosures under capital management.

APPENDIX I

Annex I
S.02.01.02
Balance sheet

Assets

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

	Solvency II value
	C0010
R0030	
R0040	
R0050	
R0060	
R0070	10,721,253
R0080	
R0090	
R0100	
R0110	
R0120	
R0130	8,416,296
R0140	144,994
R0150	5,991,997
R0160	
R0170	2,279,305
R0180	2,304,957
R0190	
R0200	-
R0210	
R0220	
R0230	
R0240	
R0250	
R0260	
R0270	
R0280	
R0290	
R0300	
R0310	
R0320	
R0330	
R0340	
R0350	3,663,207
R0360	
R0370	521,268
R0380	
R0390	
R0400	
R0410	160,163
R0420	300,475
R0500	15,366,366

Annex I

S.02.01.02

Balance sheet

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	3,122,674
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	3,122,674
TP calculated as a whole	R0660	
Best Estimate	R0670	2,427,625
Risk margin	R0680	695,049
Technical provisions – index-linked and unit-linked	R0690	5,725,514
TP calculated as a whole	R0700	3,663,207
Best Estimate	R0710	1,994,357
Risk margin	R0720	67,950
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	
Payables (trade, not insurance)	R0840	118,221
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	74,246
Total liabilities	R0900	9,040,655
Excess of assets over liabilities	R1000	6,325,711

Annex I
 S.12.01.02
 Life and Health SLT Technical Provisions

	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)
	C0100	C0150
R0010	3,663,207	3,663,207
R0020		
R0030	4,421,982	4,421,982
R0080		
R0090	4,421,982	4,421,982
R0100	762,999	762,999
R0110	-	-
R0120		
R0130		
R0200	8,848,187	8,848,187

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

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

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
Ordinary share capital (gross of own shares)	1,250,000				
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	5,075,712	5,075,712			
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		6,325,712			
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand					
Unpaid and uncalled preference shares callable on demand					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
Other ancillary own funds					
Total ancillary own funds					

Available and eligible own funds

Total available own funds to meet the SCR
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

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
R0500	6.325.712	6.325.712			
R0510	6.325.712	6.325.712			
R0540	6.325.712	6.325.712			
R0550	6.325.712	6.325.712			
R0580	3.921.550				
R0600	4.044.240				
R0620	161%				
R0640	156%				

C0060					
R0700	6.325.712				
R0710					
R0720					
R0730	1.250.000				
R0740					
R0760	5.075.712				
R0770	180.937				
R0780					
R0790	180.937				

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)

Annex I

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
R0010	2,724,299		
R0020	129,622		
R0030	1,966,171		
R0040			
R0050			
R0060	1,040,324		
R0070			
R0100	3,779,769		

	C0100
R0130	141,781
R0140	
R0150	
R0160	
R0200	3,921,550
R0210	
R0220	3,921,550
R0400	
R0410	
R0420	
R0430	
R0440	

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

S.28.01.01

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

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/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	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 _i Result	R0200	538,324	TA/Linear

S.28.01.01.04

Z Axis:

VG/Solvency II

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

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230	5,657,564	
Other life (re)insurance and health (re)insurance obligations	R0240	2,427,625	
Total capital at risk for all life (re)insurance obligations	R0250		639,629,916

S.28.01.01.05

Z Axis:

VG/Solvency II

Overall MCR calculation

		C0070
Linear MCR	R0300	538,324
SCR	R0310	3,921,550
MCR cap	R0320	1,764,698
MCR floor	R0330	980,388
Combined MCR	R0340	980,388
Absolute floor of the MCR	R0350	4,044,240
Minimum Capital Requirement	R0400	4,044,240

