

SCOTTISH RE (DUBLIN) DAC
SOLVENCY AND FINANCIAL CONDITION REPORT

As of 31 December 2023

(3 April 2024)

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Introduction and Background Information

a) Overview of the 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 reports under Financial Reporting Standards (“FRS”) 102, the Financial Reporting Standard applicable in the UK and Ireland (Generally Accepted Accounting Practice in Ireland), FRS 103, Insurance Contracts (“relevant financial reporting framework”) (together with FRS 102, “FRS’s 102 and 103”) and Solvency II.

The Company reinsures business from one counterparty, Scottish Re (U.S.), Inc. (“SRUS”), a former affiliate of the Company and part of the structure of the Scottish Re group of companies (the “Group”) 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 this Solvency and Financial Condition Report (“SFCR”) under Appendix I). 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”, and together with the Penn Mutual Life Treaty, the “Treaties”).

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 risk corridor 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.

For further discussion on the Treaties and their recapture subsequent to 31 December 2023, in March 2024, please refer to section c) “Company Developments” in this SFCR.

The Company’s immediate parent company is SALIC, a company incorporated in the Cayman Islands, and in liquidation. The Company’s ultimate parent is SRGL, a company incorporated in the Cayman Islands, and in liquidation. Please refer to Appendix I in this SFCR for further information on SALIC and SRGL.

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 this SFCR), and SRD (as amended) (although this NWM 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 NWM Agreement);
- Support Service Agreement dated 1 January 2002 between SRUS, in liquidation (as explained further in this SFCR), and SRD; and

- 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).

In total, the fees charged in relation to these agreements for 2023, between SRUS and the Company were US\$90,747 (2022: US\$108,447). As of 31 December 2023 and 2022, the Company had US\$69,579 and US\$41,356, respectively, that was payable to SRUS, both in relation to the forgoing agreements and for intercompany expenses paid on behalf of the Company by SRUS. Please refer to Appendix I in this SFCR with regards to the Company’s inability to rely on the NWM Agreement following the events concerning SALIC.

b) Scottish Re (U.S.), Inc. 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 Scottish Re (U.S.), Inc. (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 was “...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...”.

The original Rehabilitation Plan that was submitted was designed to address the solvency issues of SRUS by implementing premium increases across all the treaties, subject to the approval of the cedents, with the level of the premium increase served on the treaty dependent on the respective current and expected profitability or losses incurred on that treaty. The cedent company did have the option to recapture the treaty if they do not approve of the premium increases. Conditions on either option chosen by the cedent company were embedded in the Rehabilitation Plan as a way of encouraging acceptance and participation of the Rehabilitation Plan by the cedent company while at the same time securing an improved solvency position for SRUS, which will enable SRUS to eventually come out of rehabilitation.

Upon receipt of the original Rehabilitation Plan that was submitted to the Court, the cedents raised questions and submitted information requests to the Receiver on the conditions of the original Rehabilitation Plan. Since the submission of the original Rehabilitation Plan to the Court, the Receiver had been in contact with the SRUS cedent and retro companies, addressing questions and concerns and providing further information to the cedent and retro companies to try and obtain their support for the original Rehabilitation Plan.

The Receiver, in response, had supplied additional information and answered questions of the cedent parties since the submission of the original Rehabilitation Plan. Nevertheless, the process of information gathering and answering questions had taken longer than envisaged and caused timetable delays. The timetable delay issues were further compounded with a change in the presiding judge of the Court in May 2021, which resulted in changes in the Court process. In addition, the Receiver, in response to the questions and concerns of the SRUS cedent and retro companies, made updates and clarifications and submitted a modified Plan of Rehabilitation (the “Modified Plan”) with the Court for approval on 30 June 2022. The Modified Plan was being reviewed by cedents, who raised further questions and objections, and made additional information requests, all of which needed to be addressed by the Receiver, creating further delays in the rehabilitation process of SRUS. As a result, the timeline for the approval date for the Modified Plan by the Court continued to be pushed back.

On 14 February 2023, the Receiver, in his quarterly status report to the Court, reported that SRUS experienced higher mortality than they had anticipated for 2022. The status report stated that the Receiver was assessing the impact of this higher mortality, as well as future projected mortality, on the required modified rehabilitation plan and solvency projections.

On 3 May 2023, the Receiver provided a further update to the Court, in which it was determined that the extended time period necessary to achieve solvency and sufficient surplus for SRUS per the Modified Plan introduces inherent uncertainties such that the Receiver arrived at the conclusion that SRUS should be liquidated.

On 13 July 2023, the Receiver presented the Motion to the Court seeking entry of an order of liquidation for SRUS (the “Motion”). The Motion was unopposed, and the Receiver invited the Court to grant the order of liquidation based on the evidence filed without the requirement for a hearing.

On 18 July 2023, the Court entered a Liquidation and Injunction Order (the “Liquidation Order”), granting the Motion which, among other things, converted the case of SRUS from a rehabilitation to a liquidation, and appointed the Receiver as liquidator (the “Liquidator”).

As set forth in the Liquidation Order, Paragraph 20(a), *“all agreements of reinsurance issued by SRUS by which SRUS reinsures a cedent, whether issued in the State of Delaware or elsewhere, in effect as of the date of this Liquidation and Injunction Order shall only continue in force until the earlier of the following events: (i) the stated expiration or termination date and time of the contract of the reinsurance agreement; (ii) the effective date and time of a reinsurance agreement with a third party reinsurer that replaces the reinsurance agreement with SRUS, regardless of whether the coverage is identical coverage; (iii) the effective date and time of any legally authorized transfer of SRUS’s liabilities under the reinsurance agreement to a third-party reinsurer; and (iv) for all other reinsurance agreements not addressed above, such reinsurance agreements would be cancelled at 11:59 p.m. on SATURDAY, SEPTEMBER 30, 2023, regardless that such day is a Saturday.”*

The Liquidation Order outlines the termination of all of SRUS’s inward and outward reinsurance agreements. First, paragraph 20(a) of the Liquidation Order addresses agreements of reinsurance under which SRUS reinsures a cedent. As mentioned above, this paragraph provides that all such agreements still in effect as of 30 September 2023 at 11:59 p.m. for which SRUS still bears liability will be cancelled. Paragraph 20(b) of the Liquidation Order then addresses reinsurance contracts under which a retrocessionaire (such as SRD) reinsures SRUS.

Rather than providing for an automatic cancellation as of a particular date, Paragraph 20(b) of the Liquidation Order provides simply, “The Receiver may terminate, cancel, or rescind any reinsurance contract with a retrocessionaire of SRUS, in which that retrocessionaire reinsures SRUS that is contrary to the best interests of the receivership.”

The Liquidation Order leaves the determination of what constitutes the “best interests of the receivership” in this context to the discretion of the Liquidator. If the Liquidator’s judgment were ever questioned in this regard, the Court would likely allow him broad discretion.

The Liquidator has ceased paying reinsurance premiums after 1 October 2023 (with the underlying reinsurance agreements having been cancelled), and so the Company’s shareholders’ funds will continue to erode due to ongoing operational expenses.

On 2 February 2024, a notice was submitted to the Court in which the Liquidator, within thirty (30) days of submission of said notice, will file a motion to the Court to approve certain procedures for the submission, valuation, and determination by the Liquidator of cedent claims arising on or before the effective date under reinsurance agreements. This motion will be accompanied by another motion to set the bar date for these claims. The Liquidator will ask this Court to set this bar date six (6) months after the date of the Court’s Order approving the procedures. This will put the timeline of the bar date (which up until this moment, no bar date had been set by the Liquidation Order) to the second half of 2024, around August/September 2024 time.

The Board of Directors (the “Board”), Company Management (“Management”), along with its Irish and U.S. legal counsel, have all reviewed the impact that these developments concerning SRUS will have on the Company.

c) Company Developments

SRD is required by the Central Bank of Ireland (the “Central Bank”) 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 2014.

The Board and Management also continue to adhere to the conditions in the direction letters received by the Company from the Central Bank since 28 November 2019 and renewed annually (the latest direction letter is dated 28 November 2023), which, among other things, instructed all out-of-scope expenditure and expenditure to other companies within the Group (which included claims payments) to be submitted to the Central Bank for review and approval at least fifteen calendar days prior to the processing of any such payments.

SRD’s financial situation has deteriorated in recent years due to the lack of new business, its claims experience, and lack of support from its parent company and sole shareholder, SALIC, which entered U.S. Chapter 7 liquidation proceedings in April 2019. This has resulted in a continued decline in the solvency coverage ratio for both SRD’s Minimum Capital Requirement (“MCR”) and Solvency Capital Requirement (“SCR”) under Solvency II. (Note that, for SRD, the MCR is now at the level of the absolute floor (which was increased to €3.9 million from end of October 2022 as per the Central Bank amendment to the MCR threshold) and is higher than the calculated SCR.) From late 2020 to July 2021, the coverage of the MCR was in the 100% to 110% range. However, as a result of a large claim payment falling due and accrued for on its YRT Treaty, the MCR coverage level fell below 100% as of 31 August 2021 (which was observed on 10 September 2021) and caused SRD to be in non-compliance with its Solvency II MCR.

The Company wrote to the Central Bank on 10 September 2021 under Regulation 148 (1) and Regulation 148 (2) to notify the Central Bank that the Company believed that it was in breach of its requirement to cover the MCR and no longer met the requirements as set out under Regulation 148 (1) and 148 (2) as of 31 August 2021. As of 31 December 2023, MCR coverage level remains below 100%, at approximately 74% (2022: approximately 71%).

SRD has own funds (or net assets) (“Own Funds”) under Solvency II of US\$3.2 million relative to the MCR of US\$4.3 million as of 31 December 2023, so the Company had net assets to cover only approximately 74% of its MCR. It should be noted that this represents an extremely low level of coverage given the fact that the death of a single policy on the YRT Treaty could result in a claim of up to US\$2.5 million, which could accrue prior to 30 September 2023 (as explained further herein).

SRD submitted its Finance Scheme to the Central Bank on 8 October 2021, as it was required to do on non-compliance of its MCR pursuant to Regulation 148 (2) of the European Union (Insurance and Reinsurance) Regulations 2015. SRD’s Finance Scheme provides, inter alia, for the proposed recapture by the single counterparty, SRUS, of the Treaties. Pursuant to the Finance Scheme, following recapture of the Treaties on commercially agreeable terms, SRD will have removed all reinsurance liabilities from its balance sheet and ultimately would move to wind-up through a Members’ Voluntary (Solvent) Liquidation.

SRD’s counterparty (and former affiliated entity) on its two in force Treaties, SRUS, is the subject of a Liquidation Order (formerly a Rehabilitation Order), and the Liquidator (formerly the Receiver) controls the affairs of SRUS.

Since the Rehabilitation Order, SRD had issued numerous letters to the Receiver’s legal counsel through the Company’s U.S. legal advisor, Cozen O’Connor (“Cozen”), requesting termination/recapture of the Treaties, and setting out offers with proposed terms of recapture, with follow up emails and telephone calls.

On 30 September 2021, SRD, through Cozen, made a proposal to SRUS with financial terms for the recapture of the Treaties.

On 9 December 2021, SRD received correspondence from SRUS (through respective legal counsel) with a counter proposal on proposed commercial terms upon which it would be prepared to recapture the Treaties (the “SRUS Counter Proposal”).

The terms of the SRUS Counter Proposal were that the recapture should involve the transfer to SRUS of the Treaties’ liabilities and all assets of SRD, less an amount of US\$750,000 for wind-up purposes of SRD, subject to expense documentation in support thereof. The SRUS Counter Proposal was presented with a view toward the impact of recapture on the SRUS estate, its creditors aside from SRD, the potential for Court approval, and the development of the Rehabilitation Plan and subsequent Modified Plan.

The Board and Management, after exhaustive investigation, believe that there are no viable options for SRD to restore coverage of its MCR. All other possible options that could have been available to the Company have been explored and exhausted without success. The threat of mortality risk to the Company was, at the time, too large for the Board and Management to ignore, and an opportunity to recapture the Treaties appeared to be available to the Company at the time. Following the review of the SRUS Counter Proposal, on 15 December 2021, the Board, following consultation with Management, agreed with the Receiver (as he was referred to back then) on a consensual recapture of the Treaties under the terms and conditions of the SRUS Counter Proposal, subject to the approval of the Court. SRD received Central Bank notice of no objection to the recapture on 16 December 2021.

The primary purpose of the SRUS Counter Proposal, in providing SRUS with the Company's balance sheet less a holdback amount for the orderly wind-up of the Company's operations, was to try and facilitate an early recapture of the Treaties by providing some form of reasonable premium or incentive to SRUS to accelerate a recapture of the Treaties prior to the execution of the Modified Plan. In doing so, this would have assisted the Board in its plans to remove the prevalent risk to the Company's financial position of potential adverse claims experience which the Company was not in a position to withstand, as previously mentioned, while helping the Board fulfil its primary objective, as disclosed in the Company's Finance Scheme, of getting the Treaties recaptured, which would then allow the Board to proceed with a solvent liquidation of the Company. When the terms of the SRUS Counter Proposal were initially accepted by the Company and supported by the Central Bank back in December 2021, SRUS was under a Rehabilitation Order. The Receiver, in trying to come up with a Rehabilitation Plan, which was already extensively delayed in its Court approval and execution from its initial timeframe, was subsequently turned into a Modified Plan due to the feedback and objections received from SRUS cedents.

Despite an agreement between SRD and SRUS to a consensual recapture of the Treaties under the terms of the SRUS Counter Proposal back in December 2021, which received Central Bank notice of no objection that same month, there were no further developments in relation to the recapture of the Treaties between December 2021 and early November 2023, despite efforts by the Company, through its U.S. advisor, Cozen, to try and get an agreement executed. Given the passage of time since the Company agreed in principle to the terms for an early recapture of the Treaties under the terms of the SRUS Counter Proposal, dated back to December 2021, and which no recapture of the Treaties had materialised, on 30 June 2023, the Company notified SRUS that any proposed recapture put forward now will need to have the commercial terms re-evaluated for approval by both the Board and the Central Bank.

With SRUS having converted from a rehabilitation process to a liquidation process pursuant to the Liquidation Order, and the former Receiver of SRUS now appointed as the Liquidator of SRUS, the circumstances and conditions relating to the SRUS Counter Proposal have changed. The plans to rehabilitate SRUS as a viable going concern entity have not been successful and the Liquidator is now proceeding with a plan to liquidate SRUS under the Liquidation Order. The Receiver is now the Liquidator, and his role has changed accordingly.

As stated earlier, the Liquidation Order outlines the termination of all of SRUS's inward and outward reinsurance agreements and leaves the determination of what constitutes the "best interests of the receivership" in this context to the discretion of the Liquidator. If the Liquidator's judgment were ever questioned in this regard, the Court would likely allow him broad discretion.

Under Paragraph 20(a) of the Liquidation Order, it appears unlikely that the Company would have exposure to claims from SRUS that accrue after 30 September 2023, as the cedent company contracts appear to have been terminated on that date. It appears that the risk of adverse claims impacting on the Company on account of claims accruing after 30 September 2023 will have been removed, although there is the risk of reporting lags, where claims that incurred prior to 30 September 2023, are not reported to the Company until sometime after 30 September 2023. Even though the Company's actuaries, Milliman Limited ("Milliman"), has forecasted the reporting lag on claims incurred on the YRT Treaty to be an average of six weeks, based on historical information of the Company, given the unusual circumstances of the liquidation process of SRUS, there is the possibility that the reporting lags of claims incurred prior to 30 September 2023 could take many months, and potentially up to a year.

This is a view shared by the Board (excluding Mr. Klingenberg, as explained further herein) and Management, the Company's U.S. legal advisor, Cozen, and the Company's Irish legal counsel, William Fry LLP ("William Fry"), following an initial review of Paragraph 20(a) of the Liquidation Order. This has proven to be the case, as on 6 March 2024, the Company was notified by SRUS of a pending claim incurred prior to 30 September 2023, the effective date, per the Liquidation Order, under the YRT Treaty, for US\$300 thousand. This claim will be reported under the Company's February 2024 financial results. Despite this large claim, and the development discussed earlier with the Liquidator has ceased paying reinsurance premiums after 1 October 2023 (with the underlying reinsurance agreements having been cancelled), the Company remains solvent under Irish company law ("Company Law") and still has sufficient funds, dependent on certain circumstances, in the short term to be able to wind down the Company on a solvent basis under Company Law.

Please note that the Board's review process of SRUS under the Liquidation Order, as explained further in this SFCR, was conducted by all members of the Board except for Board member, Mr. Klingenberg. Mr. Klingenberg, at his own request, was precluded from such discussions to avoid any potential conflict of interest that he may have, given his role as Senior Executive for the Liquidation Estate (formerly Chief Executive Officer) of SRUS. The Board discussed and satisfied itself that this arrangement was in the best interests of the Company. This SFCR clearly discloses where Mr. Klingenberg was precluded in any such Board review and discussion.

There has been a growing issue in relation to the overfunding in the reserve credit trust ("RCT") account, under the YRT Treaty, and the declining amounts available in the Company's capital account to pay the running expenses of the Company. In May 2019, Bank of New York Mellon ("BNYM") received a "Revocation of Consent Letter" ("Revocation Letter") from the then Receiver of SRUS, as SRUS was under a Rehabilitation Order, in which SRUS had revoked the previously granted consent under Section 7 of the Reinsurance Trust Agreement for the Company to withdraw assets from the RCT account to the extent the market value of assets in the RCT account exceeded 102% of the liabilities secured by the RCT account.

The RCT was established to secure obligations of the Company to SRUS under the YRT Treaty for SRUS to obtain credit on its statutory financial statements for the liabilities ceded to SRD. The YRT Treaty contains several provisions relevant to the handling and use of the RCT account. It should be noted that the YRT Treaty provides that SRUS shall deliver on a quarterly basis a report to SRD setting forth the amount of SRD's obligations as of the end of such quarter. If the amount of SRD's obligations as shown on the report are less than 102% of market value of the assets held for SRD's benefit, then SRUS must, within thirty (30) days of its receipt of a request from SRD, release the excess funds to SRD.

The Company has previously advised SRUS that the market value of the assets in the RCT account exceeds 102% of the liabilities secured by the RCT account and that SRD believes it is entitled to a release of the excess funds. As of 30 September 2023, based on the most recent RCT account report provided by SRUS, the RCT account was overfunded and exceeded the liabilities by approximately US\$4.5 million. The Company has communicated to SRUS concerning a consent to the release of the excess funds in the past. During this time, the Company has had to use the funds from its unrestricted accounts to pay its operating expenses. These unrestricted accounts include the BNYM capital account and three accounts that are held locally in Ireland under the Bank of Ireland, one US dollar account and two Euro accounts.

While the Company has managed to operate as normal under these circumstances, it was aware that the funds available to SRD from its unrestricted accounts are continuing to diminish, leaving the Company's Board and Management concerned with the future liquidity of the Company.

One avenue pursued by Management was to use the funds generated from the quarterly reinsurance settlements to settle these funds into the BNYM capital account. However, despite repeated requests by the Company to SRUS to do this, over the past couple of years, all quarterly reinsurance settlement amounts due to the Company have been transferred to the RCT account, providing the Company with no means to access it, under the current Revocation Letter, which is still in place following the conversion of SRUS from a Rehabilitation Order to a Liquidation Order, effective 18 July 2023, as discussed earlier.

On 16 October 2023, with the matter brought to the Board's attention, the Company (excluding involvement from Mr. Klingenberg), through the Company's U.S. legal advisor, Cozen, sent a letter to SRUS requesting the 3Q 2023 Reinsurance Settlement (which is in excess of US\$600 thousand) and partial payment of excess amount in the RCT account, in accordance with a Partial Pre-Plan Payment Scheme to cedents, which was granted on 31 March 2022. In embarking on these two matters, the Board (excluding Mr. Klingenberg) and Management acknowledge that this would help ease the Company's liquidity concerns in the short term, and then allow the Company to explore the medium-term prospect of addressing the rest of the overfunded amount in the RCT account along with the possibility of continuing to try and get the Treaties that the Company has with SRUS recaptured.

The 16 October 2023 letter was sent directly to the Delaware Insurance Commissioner, with the Liquidator of SRUS and the Attorney General of the State of Delaware copied in, in addition to sending the letter to the legal counsel of the Liquidator of SRUS, to try and get the issue the maximum amount of attention it deserves. The letter gave SRUS a deadline of 10 November 2023 to respond, which SRUS did on that date.

In the 10 November 2023 response letter from SRUS, which included some apparent misapprehensions, the Liquidator agreed to release the 3Q 2023 Reinsurance Settlement in return for the Company accepting the terms of the SRUS Counter Proposal. While the Board (excluding Mr. Klingenberg) welcomes such an offer, the Board (excluding Mr. Klingenberg) is cautious based on the experience of the past two years. Also, and as discussed earlier, given the passage of time and the lack of engagement from SRUS since the Company agreed in principle to the terms for an early recapture of the Treaties under the terms of the SRUS Counter Proposal, dated back to December 2021, and which no recapture of the Treaties had materialised, on 30 June 2023, the Company notified SRUS that any proposed recapture put forward now will need to have the commercial terms re-evaluated for approval by both the Board and the Central Bank.

On 17 November 2023, the Company, following input from the Board (excluding Mr. Klingenberg) and Management, sent a letter to SRUS, through the Company's U.S. advisor, Cozen (the "17 November Letter"). The 17 November Letter primarily attempts to correct some apparent misapprehensions from the 10 November 2023 response letter from SRUS, as well as highlight that the Company is willing to discuss a deal on a recapture of the Treaties which in broad terms could be similar, but not identical, to the terms contained in the SRUS Counter Proposal. The Board is always conscious of its duties to have regard to the best interests of the Company and all of its stakeholders, including but not limited to, the Company's sole shareholder, SALIC.

The Company felt a revised proposal for the recapture agreement should be considered by it given that the original draft recapture agreement was proposed almost two years ago, and the economic circumstances of the Company and SRUS have changed since that date, particularly concerning the risk of a large claim or series of large claims accruing prior to 30 September 2023, while still a risk, is a risk that will continue to reduce over time.

The Board was also concerned by the lack of timescale parameters on the original draft recapture agreement and wanted to include a deadline for the recapture of the Treaties embedded in the revised proposal. The 17 November Letter went on to state that as a recapture agreement is the primary objective of the Board, in order that they can wind-up the Company, the Liquidator must recognise that the Company is more than willing to engage in constructive dialogue in order to expedite an agreement on the recapture of the Treaties in a prompt timeframe.

However, the 17 November Letter did reiterate that the Company does urgently need access to liquid funds and as such the immediate release of, at a minimum, the 3Q 2023 Reinsurance Settlement is necessary in order to enable discussion on a new recapture agreement. The 17 November Letter also states that the Board (excluding Mr. Klingenberg) believes, and is advised by counsel, that SRUS is in breach of the terms outlined in the YRT Treaty agreement, and the Board (excluding Mr. Klingenberg) may be obliged to take the necessary course of action including filing a motion, should SRUS fail to comply with its contractual obligations, to protect the interests and legal rights of the Company. The Board is always cognisant of its obligations to consider the interest of all the Company's stakeholders, and all decisions by the Board are made to reflect that. The 17 November Letter did provide a deadline for a response of five business days, which gave a deadline of 28 November 2023 (based on U.S. public holidays within that timeframe), which SRUS did on that date.

In the 28 November 2023 response letter from SRUS, despite the continued misapprehensions concerning the RCT account and the ownership of the excess assets in the RCT account, it was noted that the Liquidator was willing to come to an agreement in relation to the recapture of the Treaties. On 1 December 2023, the Company, following input from the Board (excluding Mr. Klingenberg) and Management, sent a letter to SRUS, through the Company's U.S. advisor, Cozen. Given the urgent nature of the situation, on 6 December 2023, the Company also sent the 1 December Letter to the Delaware Insurance Commissioner.

During the course of December 2023 and January 2024, negotiations between the Company, through the Company's U.S. legal advisor, Cozen, and the Liquidator, through his counsel, did materialise with a view to trying to get both a recapture agreement in place and to address the Company's liquidity concerns.

In January 2024, the Company and SRUS finalised and signed two agreements, the Recapture and Termination Agreement and the Settlement and Release Agreement (together, the "Recapture Agreement"). As part of the Recapture Agreement, the Company is to transfer its reinsurance liabilities to SRUS, in exchange for US\$1 million in cash. This US\$1 million would be released in two installments:

- 1) US\$650 thousand released immediately upon the signed Recapture Agreement, which has been released in January 2024; and
- 2) a further US\$350 thousand upon receipt of Court approval for the Company to cover its operating expenses as part of its objective to pursuing a wind-up through a Members' Voluntary (Solvent) Liquidation.

The Recapture Agreement also involves the Company to release any rights or claims to funds in the RCT account and the Penn Mutual Life Treaty Funds Withheld account one (1) business day after the full settlement amount has been released to the Company.

The Recapture Agreement has an effective date of 30 September 2023, and needs to be approved by the presiding judge of the Court over the Liquidation of SRUS. As part of the Recapture Agreement, SRUS filed a motion in the Court, on 7 February 2024, to get the recaptures approved. Furthermore, on 8 February 2024, SRUS filed an Order with the Court, setting 11 March 2024 as the deadline for parties to file objections to the motion to get the recaptures approved. The Order then states that a hearing will only be scheduled if any objections are filed. No objections were filed by the 11 March 2024 deadline.

On 15 March 2024, the Liquidator, through his legal counsel, Bayard, wrote to the Court requesting the presiding judge to grant entry of the Order for the Recapture Agreement. No objections have been filed and Bayard was not aware of any unfiled objections. On that same day, 15 March 2024, the presiding judge granted the entry of the Order for the Recapture Agreement. This development from the Court removed the last hurdle for the Board and Management in getting the Treaties recaptured, as prior to this, the Board and Management had no control over such proceedings.

The Board and Management believe this Recapture Agreement is in the best interests of the Company and all of its stakeholders, including but not limited to, the Company's sole shareholder, SALIC. The Recapture Agreement approval by the Court represents a post balance sheet event and is recorded in the Company's March 2024 financial results.

Company Law requires the Board to prepare financial statements for each financial year. Under that Company Law, the Board has elected to prepare the Company's financial statements in accordance with FRS's 102 and 103, and Irish statute comprising the Act, including the European Union (Insurance Undertakings: Financial Statements) Regulations 2015. Despite the Company making a profit in 2023 and 2022, the Company's financial performance over the years has been a downward trajectory, and the general deterioration of the financial situation of the Company outlined above has also resulted in a deterioration of the Company's reported financial position under the relevant financial reporting framework. However, under Company Law, the Company remains solvent with a shareholders' funds of US\$3,214,971 as of 31 December 2023 (2022: US\$2,562,950). The Company, under Company Law, has the following notable balance sheet figures as of 31 December 2023 and 2022:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Total Assets	US\$11.0 million	US\$11.5 million
Shareholder Funds	US\$ 3.2 million	US\$ 2.6 million
Technical Provisions	US\$ 7.2 million	US\$ 8.3 million

Due to the financial deterioration of the Company and a lack of options to assist the Company in supporting it to ensure its finances are in compliance from a Solvency II perspective and above the MCR, the Board's agreed primary objective has been, and continues to be, an orderly wind-up of the Company's operations.

With the Court approval the Recapture Agreement received, the Company proceeded to get the Recapture Agreement executed, with all reinsurance liabilities relating to the Treaties removed from the Company's financial records, which was concluded on 26 March 2024. With the Recapture Agreement now executed, the Company is in a position to relinquish its reinsurance licence with the Central Bank, and then proceed with a Members Voluntary Liquidation, which has been the primary objective of the Company's Board for several years. The Board and Management will endeavour to complete this process as soon as possible and expect this to be completed within the next few months.

As a result of this, based on the recent developments and the information available, as there are no further restrictions in the Board's primary objective being a solvent liquidation through a consensual recapture of the Treaties, the Board and Management believe that they can no longer continue to adopt the going concern basis in preparing the Company's financial statements. Instead, the Company's financial statements as of and for the year ended have been prepared on a liquidation, or "break-up" basis.

Approval

This SFCR was approved by the Company's Board on 3 April 2024.

CONFIDENTIAL

Section A: Business & Performance

A1. Business

SRD is incorporated in Ireland and is a company limited by shares. The address of the registered office is:

2 Grand Canal Square
Dublin 2
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 Chartered Accountants and Statutory Audit Firm
13-18 City Quay
Dublin 2
Ireland

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

The legal advisors of the Company are:

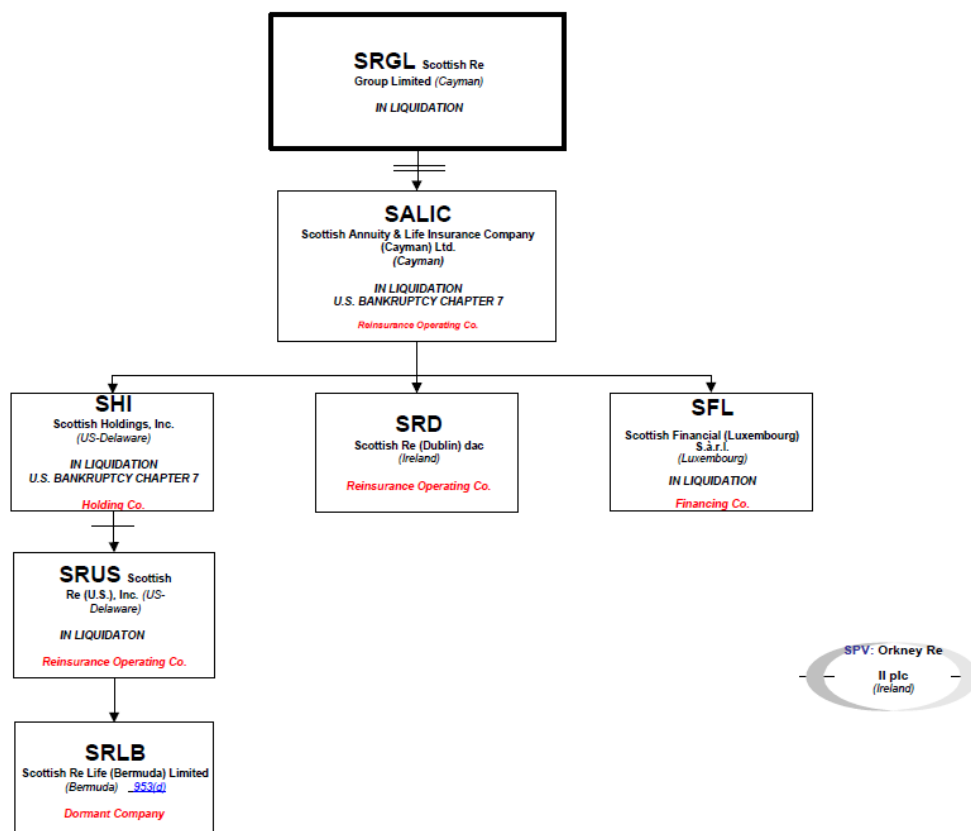
Ireland
William Fry
2 Grand Canal Square
Dublin 2
Ireland

United States of America (“USA”)
Cozen
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 Introduction and Background Information 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 Introduction and Background Information section, SRGL is being wound up through Cayman Islands proceedings.

The chart below shows the structure of the Group:



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 AS OF 31 DECEMBER 2023 AND 2022 (US\$ '000):

	2023	2022	Movement
YRT Net premium written	2,854	3,507	(653)
Claims pending/paid	(900)	(1,577)	677
Change in provision for claims	658	661	(3)
Expense provision	(870)	-	(870)
Underwriting profit for the year	1,742	2,591	(849)

The table below shows a breakout of the gross technical provisions under FRS's 102 and 103.

SRD TECHNICAL PROVISIONS AS OF 31 DECEMBER 2023 AND 2022 (US\$ '000):

	2023	2022	Movement
Account value	3,793	3,704	89
Additional guarantee	-	951	(951)
Total (Penn Mutual Life Treaty)	3,793	4,655	(862)
Unearned premium reserve	1,936	1,662	274
Incurred but not reported reserve	554	537	17
Paid/pending claims	63	1,464	(1,402)
Total (YRT Treaty)	2,552	3,663	(1,111)
Expense provision	870	-	870
Grand Total	7,215	8,318	(1,103)

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 2023 and 2022 (US\$'000):

	2023 US\$	2022 US\$
Interest on financial investments	665	315
Interest credited on deposits with cedent	(111)	(141)
Investment management charges	(18)	(15)
Unrealised loss on investments	(377)	(33)
Profit/(loss) on embedded derivative	115	(793)

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

Asset class	2023	% total	2022	% total
Cash and cash equivalents	74	1%	144	1%
Deposits to cedants	3,793	36%	3,704	34%
Deposits other than cash equivalents	4,109	39%	2,805	26%
Corporate bonds	1,181	11%	2,542	24%
Structured notes	1,280	12%	1,560	15%
Total	10,437	100%	10,755	100%

A4. Performance of other activities

Operating expenses for the year totalled US\$1,482,187 (2022: US\$1,330,944). The increase was mainly the result of foreign exchange movements between US\$ and Euro. The Company incurred charges such as US and Irish legal fees for the issues occurring with the SRUS Rehabilitation Order and subsequent Liquidation Order.

A5. Any other information

The Company's key financial and other performance indicators during the years ended 31 December 2023 and 2022 were as follows (US\$'000):

	2023	2022	Movement
YRT Gross premium written	2,854	3,507	(653)
Profit on ordinary activities	534	592	(58)
Deposits with ceding undertaking	3,793	3,704	89
Available for sale financial assets	2,461	6,907	(4,446)
Net technical provisions	7,214	8,318	(1,104)

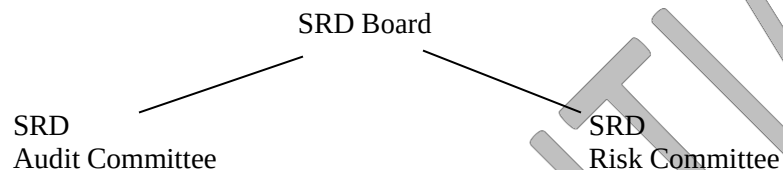
Section B: System of Governance

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 (“INEDs”), Gregg Klingenberg (Former Chief Executive Officer (“CEO”) of SRUS and who is now a Senior Executive for the Liquidation Estate), Michael Baumstein (former employee of SRD and was a former Board member of SRD), and Karina Lynch (CEO of SRD). Karina Lynch also acts as Compliance Officer of the Company and is based in Ireland.

Jim Ruane and Alex Tully are 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 fulfil their responsibilities.

The Company has appointed Mark Harris as its Chief Risk Officer and Head of Internal Audit.

The objective of the Board in managing the capital of the Company had been to ensure it has sufficient coverage from a solvency position to comply with regulatory requirements. The Board, with the assistance of Management, closely monitors the solvency position of the Company on a monthly basis, while reviewing the key risks to the Company. It has clearly defined what it considers to be an acceptable solvency position and uses specific ranges to classify the solvency position. The Board had agreed to a target solvency ratio of over and above 100%. This percentage represents the minimum solvency requirements under Pillar 1 of Solvency II of 100% for the Company. As stated earlier, the Company has an observed breach of its MCR, which commenced as of 31 August 2021 and is still in place. As a result of this observed breach of its MCR, and taking in account the Company's financial situation, the Board revised its target for the Company, which is now to maintain sufficient own funds and sufficient solvency from a Company Law perspective to ensure the Company has sufficient capital to fund a recapture of the Treaties by SRUS. The terms and conditions of the executed Recapture Agreement, as discussed earlier, allowed the Board to observe this target. Given the Recapture Agreement is now executed, as discussed earlier, resulting in the Company being in a position to relinquish its reinsurance licence with the Central Bank, and then proceed with a Members Voluntary Liquidation (which has been the primary objective of the Company's Board for several years), the Board considers the time horizon for the Company to be short term only.

The retrocession strategy for the Company is also reviewed annually and approved by the Board. Human resource policies covering appointment, disciplinary procedures, and dismissal of senior management (including remuneration) have been adopted by the Board. The Company has a defined contribution pension scheme in place with an annual contribution rate of 15% of eligible pensionable earnings.

The Company utilises support from SRUS, 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 fulfil their responsibilities. All material contracts entered into by the Company are reviewed by local Irish counsel, William Fry, and U.S. advisor, Cozen, as necessary. Investment management is outsourced to a former affiliate company, SRUS, and Barings, 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 continues to monitor the Company's corporate governance structures 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 Central Bank.

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

The 1st Line of Defence – Business Management

Business management makes up the first line of defence. Overall, the first line of defence 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 Defence – Oversight

The second line of defence 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 Defence – Assurance

The third line of defence comprises of the Company’s independent assurance functions, i.e., internal and external audit, which 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 19 December 2023.

The Board retains responsibility in respect of the ORSA process and has an active role steering the process and challenging the results.

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 financial 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 defence in the Company.

The internal audit function of the Company is managed by the Head of Internal Audit, 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; and
- 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 and the Board.

B6. Actuarial function

The Company provides for an Actuarial Function as specified in the Central Bank Solvency II guidance. The position of Head of the Actuarial Function is held by Michael Culligan of Milliman, who has a wealth of experience in the Irish reinsurance industry.

Michael Culligan 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 Management, staff from the Company's former affiliate, SRUS, 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	Ireland
PwC	Tax Consulting Services	Ireland
William Fry	Legal Services	Ireland
Cozen	Legal Services	USA
Wilton Secretarial	Company Secretary	Ireland
Brendan J McLoughlin	Payroll Services	Ireland
Marsh Management	Central Bank Reporting	Ireland
Grant Thornton	Auditing	Ireland
SRUS	Underwriting, Legal, Tax	USA
Mark Harris	Risk, Internal Audit, Finance, and Compliance	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 the Introduction and Background Information sections, “Overview of the Company”, “Affiliated and Former Affiliated Business Matters”, and “Company Developments”, and the Central Bank direction letters submitted to the Company since 28 November 2019, and renewed annually (the latest direction letter is dated 28 November 2023) which included certain restrictions such as to cease writing new contracts of reinsurance for a period of twelve months from the date of the direction letters unless revoked earlier by the Central Bank in writing, no further business may come to the Company.

There are two Treaties on the Company’s statement of financial position as at end of year 2023, of which both Treaties are from SRUS. 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 US\$3,792,623 of reserves as of 31 December 2023 (US\$3,704,089 as of 31 December 2022) 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 determined a modco reserve adjustment, which was calculated by subtracting the US statutory reserves for contracts in force at the end of the current calendar quarter from 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 was positive, the treaty required that it will be paid by SRD to SRUS; if negative, the treaty required that it will be paid by SRUS to SRD. However, having regard to developments outlined under the Introduction and Background Information sections, “Overview of the Company”, “Affiliated and Former Affiliated Business Matters”, and “Company Developments”, the reserve balance had not changed since the termination of all of SRUS’s inward and outward reinsurance agreements, effective 30 September 2023, per the Liquidation Order, and the Penn Mutual Life Treaty was recaptured by SRUS, which was completed on 26 March 2024.

Under the second treaty the Company shared 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. Like the Penn Mutual Life Treaty, the YRT Treaty was also recaptured by SRUS, which was completed on 26 March 2024.

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, firstly under the Rehabilitation Order as the Receiver, and then subsequently under the Liquidation Order, as the Liquidator). In connection with this YRT Treaty, and as discussed earlier, SRD created an RCT account with BNYM and SRUS as beneficiary in order to ensure that SRUS receives full statutory reserve credit in Delaware for the insurance risks ceded to SRUS under the YRT Treaty. As of 31 December 2023, under that arrangement, BNYM, as Trustee, holds US\$6,569,354 (US\$5,157,575 as of 31 December 2022) covering a reserve requirement of US\$2,552,301 (US\$3,663,332 as of 31 December 2022) less a reinsurance receivable of US\$470,181 (US\$642,509 as of 31 December 2022). The relevant RCT account provides that to the extent that the market value of assets in the RCT account exceeds 102% of the liabilities for which the RCT 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 BNYM and SRUS requesting the withdrawal from the RCT account of the excess above 102% of liabilities.

However, given the fact that SRUS entered Rehabilitation, the Receiver did not provide SRUS's consent to the withdrawal in which case BNYM did not agree to release the excess amount to SRD. Under the terms of the YRT Treaty, monies in the RCT account can be used by SRUS, including by the Liquidator, 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 Liquidator can only use those sums for permitted purposes under the YRT Treaty. This restriction had caused liquidity issues for the Company which were resolved following the Court approved Recapture Agreement in March 2024.

The Company sets out its risk appetite in its risk appetite statement. With consideration of the Company's financial situation, observed MCR breach, and recent developments, as discussed earlier in this SFCR, the Board maintains sufficient own funds ("Own Funds") and sufficient solvency from a Company Law perspective to be able to wind down the Company's operations on a solvent basis.

As stated earlier, SRD has a number of service agreements in place with SRUS. 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 SRUS as service provider under these agreements.

C1. Underwriting risk

C1.1 Risk exposure

The Company was previously exposed to significant insurance risk (primarily mortality and persistency risk) but following SRUS entering liquidation and the termination of the inward and outward reinsurance agreements as of 30 September 2023, as per the Liquidation Order, the Company is no longer exposed to most of these risks. The Company is still exposed to expense risk and mortality risk (in respect of claims that occurred before 30 September 2023 but have not been reported) – however these risks are no longer considered material following the Recapture Agreement, as discussed earlier in the SFCR.

The following table summarises the capital requirements in respect of these risks, at year-end 2023 and year-end 2022. The figures are calculated on a standard formula basis.

Life Underwriting Risk (US\$'000)	2023	2022	Movement
Lapse Risk	-	165	(165)
Mortality Risk	-	271	(271)
Expense Risk	91	158	(67)
Catastrophe Risk	-	700	(700)
Longevity Risk	-	108	(108)
Diversification	-	(460)	(460)
Total Life Underwriting Risk	91	941	(850)

See S.25.01.21 Basic Capital Requirement in Appendix II for further information.

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

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

Expense Risk

The Company's exposure to expense risk is the risk that the expenses actually incurred will be greater than those provided for in the technical provisions. This has been mitigated following the Recapture Agreement receiving Court approval, allowing the Board and Management to proceed with a wind down the Company on a solvent basis under Company Law.

Mortality Risk

The Company is no longer exposed to future death claims on the treaties as these have terminated as of 30 September 2023. However, the Company is still exposed to some risk of adverse claim experience – specifically that the incurred but not reported (“IBNR”) reserve is not sufficient to cover claims that occurred prior to 30 September 2023 but have not yet been reported. This could arise from the death of a policyholder with a particularly large sum assured, or a larger than expected number of claims arising over a short period, as evidenced by the US\$300 thousand claim that was reported on 6 March 2024. The maximum sum assured under the YRT Treaty is US\$2.5 million. The Company has held an allowance for claims IBNR in its technical provisions at end 2023 to allow for this uncertainty. However, no more claims will emerge following the execution of the Recapture Agreement, which was completed on 26 March 2024, and thus removed this risk entirely.

C1.2 Risk concentration

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

C1.3 Risk mitigation

The Company closely monitors its general expenses and claims reporting to ensure that they remain within the expectations of the company.

C1.4 Risk sensitivity

The expense SCR illustrates the level of risk arising from expense risk. The Company also examined these risks in the most recent ORSA.

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 2023 and year-end 2022. The figures are calculated on a standard formula basis.

Market Risk (US\$'000)	2023	2022	Movement
Spread Risk	1,191	1,444	(253)
Currency Risk	183	158	25
Interest Rate Risk	532	128	404
Concentration Risk	67	67	-
Diversification	(595)	(295)	(300)
Total Market Risk	1,377	1,502	(125)

Market risks are assessed using a number of different methods, including:

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

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.

Foreign Currency Risk

Foreign currency risk is the risk that losses will be incurred due to adverse movements in exchange rates. As stated earlier, the functional currency is the United States dollar; however, the operating expenses are in Euro and the Company maintains part of the investment portfolio in Euro. All of the Company's reinsurance business is settled in United States dollars. Following the Recapture Agreement, which was completed on 26 March 2024, this risk has been greatly reduced.

Interest Rate Risk

Interest rate risk consists of two components: (i) in a falling rate scenario, funds reinvested may earn less than is necessary to match anticipated liabilities; and (ii) in a rising rate scenario, cash outflows may have to be funded by selling assets, which will then be trading at depreciated values.

The Company mitigates both components of risk through asset-liability management, including the technique of simulating future results under a variety of interest rate scenarios and modifying the investment and hedging strategy to mitigate downside risk to earnings. The investment portfolio is composed of fixed-maturity bond investments, with both fixed interest and floating rate securities. The overall objective is to limit interest rate exposure. Following the Recapture Agreement, which was executed on 26 March 2024, this risk has been greatly reduced as the investments have been transferred to SRUS.

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 had US\$74,357 cash as of 31 December 2023 (2022: US\$143,842) and a reinsurance receivable of US\$470,181 (2022: US\$642,509). The Company is exposed to the risk of default on these holdings. The following table summarises the capital requirements held in respect of these risks, at year-end 2023 and 2022.

Counterparty Risk (US\$'000)	2023	2022	Movement
Type 1	219	205	14
Type 2	9	11	(2)
Diversification	(2)	(3)	(1)
Total Counterparty Risk	225	213	12

C3.2 Risk concentration

SRUS was placed under a Rehabilitation Order which provides SRUS with Court protection during the rehabilitation period. This Court protection has continued following the conversion of SRUS from a Rehabilitation Order to a Liquidation Order, effective 18 July 2023. 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. It should be noted that SRUS has stopped paying premiums since 30 September 2023 when the front end of the contracts were all terminated.

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 “High” due to the lack of access to surplus liquid assets in the RCT account. As a result of the restrictions imposed in accordance with the terms of the retrocession agreement for SRUS and other agreements to which they relate, these assets are not available for general corporate purposes and are considered “restricted”. Consequently, the Company has relied on funds from its unrestricted accounts to pay its operating expenses.

In January 2024, the Company and SRUS reached a Recapture Agreement, which was approved by the Court on 15 March 2024, and completed on 26 March 2024. The Company maintains adequate cash reserves to cover expenses up until the anticipated wind down of the Company’s operations on a solvent basis under Company Law.

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

- Sensitivities
- Key Risk Indicators
- Scenario testing

C4.2 Risk concentration

If the liquidation process experiences delays and the Company’s available cash reduces, the Company may need to request an additional release of funds from SRUS to pay expenses. Therefore, this reliance on SRUS and the Liquidator is a material risk concentration.

C4.3 Risk mitigation

Liquidity risk is regularly monitored by the Board and Management to ensure the Company has sufficient funds to meet expenses, and action is taken when required (such as working with the Liquidator).

C4.4 Risk sensitivity

As part of the ORSA process, the Company considers scenarios that could potentially result in liquidity difficulties.

C5. Operational risk

C5.1 Risk exposure

Operational Risk

Operational risk is defined as the risk of losses resulting from deficiencies in internal human resource capacity, or inadequate or failed processes or systems, or by virtue of events external to the Company.

The Company qualitatively assesses its exposure to operational risk as “High” because of the liquidation process of SRUS, the liquidation process of SALIC, and the Company’s lack of access to available funds that the Company has under its accounts in the short term. While the Company has a low appetite for operational risk, given the nature of this risk it is not possible to manage or mitigate it entirely. Therefore, the Company appreciates that some exposure to operational risk is inevitable.

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.

Operational Risk (US\$'000)	2023	2022	Movement
Total Operational Risk	141	140	1

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 SRUS, which is relied upon for various support services. The Treaties are also with SRUS, so that the exposure to the Group is an important risk consideration. This has been magnified given the recent Group developments, which the Board and Management are continuingly evaluating.

C7. Any other information

Geopolitical Considerations

The invasion of Ukraine by Russia, which commenced on 24 February 2022, and is still ongoing with little signs of a peace settlement. While the Company does not have any investments in sanctioned countries involved in the Ukraine conflict (Russia and Belarus), and all of the Company's underlying policyholders are US residents, to date, the Company has experienced some impact from the Ukraine conflict on its investment portfolio, with decreases in market values as a result of prevailing interest rates on the rise.

These interest rate rises are the result of government actions worldwide (including the US) as they try to combat the rise in inflation and cost of living crisis as a result of energy and food supply shortages, which have been detrimentally impacted by the events attributed to the Ukraine conflict.

As of 3 April 2024, the Board and Management have considered the situation and conclude that the Company can currently withstand the adverse impacts this Ukraine conflict will have on the investments and technical provisions of the Company. However, the Board and Management acknowledge that this event will continue to have significant impact on, among other things, the wider economic and financial sector, and in turn, whether it could impact the Company prior to winding down its operations during 2024.

Furthermore, the Board and Management are also monitoring the implications of an escalation of tensions in the Middle East, and the potential impact on, among other things, the wider economic and financial sector from this on the Company during 2024.

Please refer to Appendix I for other developments that the Company has considered during 2023.

Section D: Valuation for Solvency Purposes

D1. Assets

The following table outlines the main categories of assets and their value as of year-end 2023 and year-end 2022 (in US\$'000):

Asset Category	2023	2022	Movement
Investments	6,569	6,906	(337)
Deposits with Cedants	3,793	3,704	89
Reinsurance Receivables	470	643	(173)
Cash and Cash Equivalents	74	144	(70)
Other Assets	92	108	(16)
Total Assets	10,999	11,505	(506)

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 a result of the restrictions imposed in accordance with the terms of the retrocession agreement for SRUS and other agreements to which they relate, the assets in the RCT account 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\$6,569,364 and US\$5,517,575 were restricted assets in the reserve credit trust, as of 31 December 2023 and 2022, 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 any 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 II for further information.

D2. Technical provision

The table below outlines the technical provisions as of year-end 2023 and year-end 2022 under Solvency II in US\$'000s:

Technical Provisions	2023	2022	Movement
Unit Liability	3,793	3,704	89
Best Estimate Liability	3,360	2,461	899
Risk Margin	13	282	(269)
Pending Claims	63	1,464	(1,402)
Gross Technical Provisions	7,228	7,912	(684)

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 2023, the methodology used to calculate the Technical Provisions was reviewed and updated following the termination of the treaties. The BEL now consists of three components:

- i. The recapture amount as stipulated in the treaty documentation;
- ii. A provision for IBNR claims; and
- iii. An expense provision.

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.

The assumptions underlying the technical provisions are monitored on an ongoing basis, and the processes in place will ensure that the undertaking will comply continuously with the requirements regarding the calculation of technical provisions.

There are no management actions that impact directly upon the calculation of the technical provisions.

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.

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. In general, uncertainty in the calculation of the technical provisions has significantly reduced since the termination of the treaties and the decision to pursue a recapture. A key assumption in the BEL is that the recapture will occur by 30 June 2024, which, as discussed earlier in this SFCR, has transpired with the Recapture Agreement receiving Court approval, and being executed on 26 March 2024. The expense provision makes an allowance for 6 months' expected expenses which was considered to be appropriate allowance for the uncertainty, at the time, that was associated with the timing of the recapture of the Treaties. This uncertainty can be seen in the SCR required in respect of expense risk.

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 2023 and 31 December 2022 in US\$'000's:

	2023 Solvency II		2023 Financial Statements
Unit Liability	3,793	Life Assurance Provision	2,552
BEL	3,360	Technical Provisions	3,793
Risk Margin	13	Expense Provision	870
Pending Claims	63		
Total Technical Provisions	7,228	Total Technical Provisions	7,215

	2022 Solvency II		2022 Financial Statements
Unit Liability	3,704	Life Assurance Provision	3,663
BEL	2,461	Technical Provisions	4,655
Risk Margin	282		
Pending Claims	1,464		
Total Technical Provisions	7,912	Total Technical Provisions	8,318

As of year end 2023, the technical provisions on a Financial Statements basis are slightly lower than the Solvency II technical provisions as there is no concept of a risk margin in Financial Statements. The expense provision under the 2023 Financial Statements column in the table above is an explicit provision for expense allowances attributable to the Treaties and has been included separately following a change in methodology to the technical provision calculation in 2023. Prior to 2023, the expense allowance was implicit in the technical provision figures.

See S.12.01.02 Life Forms in Appendix II 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 2023 and 31 December 2022, in US\$'000s. The table also shows the value of other liabilities shown in the financial statements.

2023 Solvency II		2023 Financial Statements	
Reinsurance Payables	-	Reinsurance Payables	-
Trade Payables	569	Trade Payables	569
Total Other Liabilities	569	Total Other Liabilities	569

2022 Solvency II		2022 Financial Statements	
Reinsurance Payables	-	Reinsurance Payables	-
Trade Payables	614	Trade Payables	614
Total Other Liabilities	614	Total Other Liabilities	614

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 2023 and 31 December 2022, in US\$'000:

Own Fund Item	2023	2022	Movement
Ordinary Share Capital	1,250	1,250	-
Reconciliation Reserve	1,952	1,719	233
Total Own Funds	3,202	2,969	233

The Company only holds Tier 1 basic Own Funds. Therefore, the eligible amount of Own Funds to cover the SCR and MCR is US\$3.2 million (2022: US\$3.0 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.

However, as stated earlier, as a result of a large claim on the YRT Treaty, the MCR coverage level fell below 100% as of 31 August 2021 (which was observed on 10 September 2021) and caused SRD to be in non-compliance with its Solvency II MCR.

The Company wrote to the Central Bank on 10 September 2021 under Regulation 148 (1) and Regulation 148 (2) to notify the Central Bank that the Company believed that it was in breach of its requirement to cover the MCR and no longer met the requirements as set out under Regulation 148 (1) and 148 (2) as of 31 August 2021.

As of 31 December 2023, MCR coverage level remained below 100%, at approximately 74% (2022: approximately 71%). The following table reconciles the Solvency II Own Funds to the shareholder equity shown in the financial statements for year-end December 2023 and December 2022, in US\$'000:

Reconciliation	2023	2022
Share Capital	1,250	1,250
Retained Earnings	1,965	1,313
Shareholder Equity Financial Statements	3,215	2,563
Add back FS technical provisions	7,215	8,318
 Deduct SII Technical provisions	 7,228	 7,912
Solvency II Own Funds	3,202	2,969

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 II for further information.

E2. Solvency Capital Requirement and Minimum Capital Requirements

Solvency Capital Requirement

The SCR and MCR figures at year-end 2023 and year-end 2022 (in US\$'000's) are as follows:

Capital requirements	2023	2022	Movement
SCR	1,618	2,178	(560)
MCR	4,310	4,160	150

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)	2023	2022	Movement
Market Risk	1,376	1,502	(126)
Underwriting risk	91	941	(850)
Counterparty risk	225	213	12
Operational risk	141	140	1
Diversification	(216)	(618)	402
SCR	1,618	2,178	(560)

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 II 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\$3.4 million;
- The total capital at risk US\$468 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; and
- The absolute floor of €3.9 million.

The absolute floor of €3.9 million, or US\$4.3 million, applies as of year-end 2023.

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

Material Movements in MCR and SCR over the year

Market risk decreased by US\$125 thousand during 2023. There was an increase in the interest rate SCR which was driven by the methodology change to technical provision (following the termination of the treaties) which means that discounting of future liability cashflows is no longer required due to the short time frame to the expected recapture date. This resulted in an increase in the interest rate up shock as the positive impact on liabilities no longer offsets lower asset values. However, this was offset by lower spread risk and an increase in diversification.

Underwriting risk has reduced significantly over the year as the Company is no longer significantly exposed to these risks following the termination of all of SRUS's inward and outward reinsurance agreements as of 30 September 2023.

The MCR has not changed over the year as the absolute floor (which has applied at both points) has been fixed at €3.9 million. Currency movements have had an impact on the MCR as the amount is reported in US dollars for the Company.

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 MCR and significant non-compliance with the SCR

As a result of the observed MCR breach in August 2021, the Company is non-compliant with the MCR and SCR and continues to be in breach as of 3 April 2024.

E6. Any other information

There are no other material disclosures under capital management.

APPENDIX I

a) Affiliated and Former 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 owed SRGL prior to the winding up proceedings relating to staff formerly with SRGL. 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.

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

- The court appointed trustee of SALIC (the “SALIC Trustee”) assumes the SRD shareholder responsibilities; and
- At this time, and in the absence of more information on the U.S. Chapter 7 process on SALIC and SHI, the Board is unable to place any reliance on the existence of certain options, such as the NWM Agreement with SALIC, to mitigate the adverse solvency scenarios.

SALIC, through the SALIC Trustee, was exploring options for the Company in 2020, which included a possible sale. As of 31 December 2023, to the knowledge of the Company, no material progress has been made in this regard.

The SALIC Trustee, through his counsel, has informed SRD by email dated 23 September 2021, that due to the insolvent bankruptcy of SALIC, he is not in a position to provide additional capital to SRD whether under the NWM Agreement or otherwise. The Company has lodged a claim in the bankruptcy court against SALIC for the additional capital required to restore the Company solvency. To the extent that SRD is maintaining a claim against SALIC under the terms of the NWM Agreement, the SALIC Trustee invited SRD to submit a formal claim in the bankruptcy estate of SALIC, which it has done. However, in submitting a claim against SALIC, such a process could take considerable time, and there is no guaranty that the Company will receive anything from the bankruptcy estate of SALIC. The SALIC Trustee in this case has indicated that he will not be in a position to make any payments out of the bankruptcy estate of SALIC until the liquidation (formerly rehabilitation) of SRUS has been determined, which, as of 3 April 2024, no exact date has been provided.

b) Other Developments

Silicon Valley Bank Investments

On 10 March 2023, Silicon Valley Bank (“SVB”), a California based bank that specialized in start-ups mainly in the technology sector and venture capitalists in Silicon Valley, and the sixteenth largest bank in the US, was taken over by the U.S. regulator, who shut the bank down and took control of its customer deposits in what is considered the largest failure of a US bank since 2008.

The move by the U.S. regulators followed failed efforts by SVB to raise capital to plug a loss from the sale of assets affected by the higher interest rates. The U.S. regulator expressed concern that SVB was facing inadequate liquidity and insolvency, and because of this, has moved in an effort to protect customer deposits and ensure confidence is restored in the banking sector.

As of the date of this take over, the Company had investments of approximately US\$77 thousand in SVB (approximately US\$58 thousand in the Company’s Capital 1 account; approximately US\$19 thousand in the Penn Mutual Life Treaty account), which equates to less than one percent of the total market value of the Company’s investments, a relatively immaterial amount.

Following discussions with the Company's investment manager, Barings, LLC ("Barings"), the investment in SVB did not constitute an adjusting post balance sheet event for the year end 2022 audited financial statements. More information was gathered by Barings on the situation concerning SVB and in early April 2023, they advised the Company that the SVB investments will be impaired and that the market value of the SVB investments should be written down to approximately 65% of the former market value, to which the Company agreed, resulting in an impairment of approximately US\$27 thousand to the SVB investment as of 31 March 2023.

In April 2023, as part of the Company's plan to sell investments to raise cash for operations, Barings recommended that the Company sell all the SVB investments in the Company's Capital 1 account, which it did at approximately 65 cents on the dollar. The Company still has approximately US\$13 thousand in SVB investments, which is held in the Penn Mutual Life Treaty, which is controlled by SRUS.

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APPENDIX II

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	6,569,760
R0080	
R0090	
R0100	
R0110	
R0120	
R0130	4,209,351
R0140	
R0150	2,929,417
R0160	-
R0170	1,279,934
R0180	2,360,409
R0190	
R0200	-
R0210	
R0220	
R0230	
R0240	
R0250	
R0260	
R0270	
R0280	
R0290	
R0300	
R0310	
R0320	
R0330	
R0340	
R0350	3,792,623
R0360	470,181
R0370	
R0380	
R0390	
R0400	
R0410	74,357
R0420	91,758
R0500	10,998,679

Liabilities

Technical provisions – non-life

Technical provisions – non-life (excluding health)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions - health (similar to non-life)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions - life (excluding index-linked and unit-linked)

Technical provisions - health (similar to life)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions – life (excluding health and index-linked and unit-linked)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions – index-linked and unit-linked

TP calculated as a whole

Best Estimate

Risk margin

Contingent liabilities

Provisions other than technical provisions

Pension benefit obligations

Deposits from reinsurers

Deferred tax liabilities

Derivatives

Debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions

Insurance & intermediaries payables

Reinsurance payables

Payables (trade, not insurance)

Subordinated liabilities

Subordinated liabilities not in BOF

Subordinated liabilities in BOF

Any other liabilities, not elsewhere shown

Total liabilities**Excess of assets over liabilities**

R0510	
R0520	
R0530	
R0540	
R0550	
R0560	
R0570	
R0580	
R0590	
R0600	7,228,142
R0610	
R0620	
R0630	
R0640	
R0650	7,228,142
R0660	3,792,623
R0670	3,422,302
R0680	13,217
R0690	-
R0700	-
R0710	-
R0720	-
R0740	
R0750	
R0760	
R0770	
R0780	
R0790	
R0800	
R0810	
R0820	
R0830	
R0840	
R0850	
R0860	
R0870	
R0880	568,784
R0900	7,796,926
R1000	3,201,753

S.05.01.01.02 Life

		Life reinsurance obligations		Total
		Health reinsurance	Life-reinsurance	
		C0270	C0280	C0300
Premiums written				
Gross	R1410		2,867,611	2,867,611
Reinsurers' share	R1420			
Net	R1500		2,867,611	2,867,611
Premiums earned				
Gross	R1510		2,867,611	2,867,611
Reinsurers' share	R1520			
Net	R1600		2,867,611	2,867,611
Claims incurred				
Gross	R1610		900,060	900,060
Reinsurers' share	R1620			
Net	R1700		900,060	900,060
Changes in other technical provisions				
Gross	R1710		212,344	212,344
Reinsurers' share	R1720			
Net	R1800		212,344	212,344
Expenses incurred	R1900		1,482,187	1,610,957
Other expenses	R2500			261,616
Total expenses	R2600			1,872,573

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	3,792,623	3,792,623
R0020		
R0030	3,422,302	3,422,302
R0080		
R0090	3,422,302	3,422,302
R0100	13,217	13,217
R0110	-	-
R0120		
R0130		
R0200	7,228,142	7,228,142

Own funds

R0400

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****R0500**

3,201,753

3,201,753

R0510

3,201,753

3,201,753

R0540

3,201,753

3,201,753

R0550

3,201,753

3,201,753

R0580

1,618,340

R0600

4,309,500

R0620

197.84%

R0640

74.30%

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		
R0700	3,201,753	
R0710		
R0720		
R0730	1,250,000	
R0740		
R0760	1,951,753	
R0770	-	
R0780		
R0790	-	

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

		Gross solvency capital requirement
		C0110
Market risk-	R0010	1,376,684
Counterparty default risk	R0020	226,211
Life underwriting risk	R0030	91,350
Health underwriting risk	R0040	
Non-life underwriting risk	R0050	
Diversification	R0060	-
Intangible asset risk	R0070	216,811
Basic Solvency Capital Requirement	R0100	1,477,433
Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	140,907
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	1,618,340
Capital add-on already set	R0210	
Solvency capital requirement	R0220	1,618,340
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

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	0

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 _L Result	R0200	479,167

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	-	
Other life (re)insurance and health (re)insurance obligations	R0240	7,214,925	
Total capital at risk for all life (re)insurance obligations	R0250		468,076,829

S.28.01.01.05**Z Axis:****VG/Solvency II****Overall MCR calculation**

		C0070
Linear MCR	R0300	479,167
SCR	R0310	1,618,340
MCR cap	R0320	728,253
MCR floor	R0330	404,585
Combined MCR	R0340	479,167
Absolute floor of the MCR	R0350	4,309,500
Minimum Capital Requirement	R0400	4,309,500