

REPORT ON EXAMINATION
OF THE
SCOTTISH RE (U.S.), INC.
AS OF
DECEMBER 31, 2013

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2013 of the

SCOTTISH RE (U.S.), INC.

is a true and correct copy of the document filed with this Department.

Attest By:  _____

Date: May 12, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 12th day of May, 2015.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
SCOTTISH RE (U.S.), INC.
AS OF
DECEMBER 31, 2013

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 12th day of May, 2015

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April 30, 2015

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 14-028, dated July 11, 2014, an examination has been made of the affairs, financial condition and management of

SCOTTISH RE (U.S.), INC.

Hereinafter referred to as "Company" or "SRUS" incorporated under the laws of the State of Delaware as a stock company with its home office located at 160 Greentree Drive, Suite 101, Dover, Delaware 19804. The examination was conducted at the main administrative office of the Company, located at 14120 Ballantyne Corporate Place, Suite 300, Charlotte, North Carolina 28277.

The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of Scottish Re (U.S.), Inc., a multi-state reinsurer. The previous examination was performed as of December 31, 2008. This examination covered the period of January 1, 2009 through December 31, 2013.

This examination was conducted in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (NAIC Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires the examiners plan and perform an examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating the controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and the Company's compliance with Statutory Accounting Principles and applicable annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

During the course of the examination, consideration was given to work performed by the Company's external auditor, Ernst & Young, LLP (E&Y). Certain work papers prepared by E&Y for their 2013 audit have been incorporated into the work papers of this examination as deemed appropriate.

In addition to items noted in this report, the following topics were reviewed without material exception and included in the work papers for this examination:

Fidelity Bonds and Other Insurance
Pensions, Stock Ownership and Insurance Plans
Statutory Deposits
Growth of the Company
Loss Experience

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or significant recommendations reported as a result of the examination.

SUBSEQUENT EVENTS

Subsequent to a target examination in 2013, the Delaware Department of Insurance agreed to no longer restrict the Company from soliciting or writing new business on February 27, 2014. As of the date of this examination report, the Company has not written any new business.

COMPANY HISTORY

The Company was incorporated as the NRG American Life Reassurance Corporation on January 20, 1977 under the laws of the State of Delaware and commenced business on September 29, 1977. The original Certificate of Authority was issued on January 20, 1977 and authorized the Company to transact the business of life insurance. In 1994, the Company was sold to NRG Acquisition Partners, L.P. and changed its name to Harbourton Reassurance, Inc. Scottish Holdings, Inc. (SHI) purchased the Company on September 30, 1999. The Company amended its certificate of incorporation to change its name to Scottish Re, (U.S.), Inc., effective February 2, 2000.

On December 22, 2003, the Company's parent, SHI, purchased 95% of the outstanding capital stock of ERC Life Reinsurance Corporation and changed the name to Scottish Re Life

Corporation (SRLC). On December 31, 2004, SHI contributed its interest in SRLC to the Company. GE Capital Corporation held 5 % of the ownership. On December 21, 2012, SRUS purchased the remaining 5% of the outstanding stock of SRLC. On January 14, 2013, SRUS and SRLC entered into an Agreement and Plan of Merger. Upon receipt of all required approvals, SRLC was merged with and into SRUS, effective July 30, 2013. As the surviving corporation, SRUS is responsible and liable for all of the liabilities and obligations of SRLC existing as of the effective date, and all policies of insurance and contracts and agreements of reinsurance or retrocession assumed or issued by SRLC, or pursuant to which SRLC was a party as of the effective date.

Capital and Surplus

The Company has 50,000 authorized shares with 36,000 shares of stock outstanding at a par value of \$100 per share. There has been no change to the capital account during the period under examination. As of December 31, 2013, the Company reported \$3,600,000 in capital. A contribution to surplus in the amount of \$58,871,738 was reported in 2009. As of December 31, 2013, the Company reported \$1,180,123,943 in contributed surplus.

Pursuant to approval by the Delaware Department of Insurance, surplus notes in the amount of \$30,000,000 with the immediate parent and \$70,000,000 with an affiliate were redeemed in full with accrued interest in 2012.

CORPORATE RECORDS

The minutes of the meetings of the Stockholder, Board of Directors, and Audit Committee were reviewed for the period under examination. Attendance at meetings and election of officers and directors were noted. Investment transactions were approved during the period under examination in compliance with 18 Del. C. §1304.

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Law of the State of Delaware as required by 18 Del. C. §4903, and implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under direction of its Board of Directors. The Company bylaws state the number of Directors shall be any amount permitted by statute with the number determined by resolution of the Board of Directors or by the stockholders at the annual meeting. The Board of Directors, duly elected in accordance with the Company's bylaws and serving at December 31, 2013, including their Principal Occupation and additional appointments were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Meredith Alicia Ratajczak	President and Chief Executive Officer, SRUS, SHI Director, SRUS, SHI
Daniel Ryan Roth*	Chief Financial Officer, Scottish Re Group Limited (SRGL), Scottish Annuity & Life Insurance Company (Cayman) Ltd. (SALIC), Scottish Financial (Luxembourg) S.á r.l. (SFL), Scottish Holdings (Luxembourg) S.á r.l. (SHL) Director, SRUS, SALIC, SHI, Scottish Re Life (Bermuda) Limited (SRLB), Scottish Re (Dublin) Limited (SRD)
Larry Wayne Purdue	Retired, Dixon Hughes Goodman
Norman Amberson Smith	SVP & Controller, Mass Mutual Financial Group Director, SRGL

*Resigned in 2014

Officers

The Company bylaws also state that the officers of the Company shall include a President, a Secretary and a Treasurer. The Board of Directors may also choose Senior Vice-

Presidents, Vice-Presidents, and one or more Assistant Secretaries and Assistant Treasurers. The same person may hold any number of offices unless otherwise prohibited by the Certificate of Incorporation or bylaws.

The officers of SRUS at December 31, 2013 and their principal occupation, including additional appointments for companies in SRGL were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Meredith Alicia Ratajczak	President and Chief Executive Officer, SRUS, SHI Director, SRUS, SHI
Lisa Michelle Winters	Senior Vice President and Appointed Actuary, SRUS
Gregg Lawrence Klingenberg	Executive Vice President and General Counsel & Secretary, SRUS, SHI General Counsel and Secretary, SRGL, SALIC Director, SALIC, SRD, SFL, SHL General Counsel, SFL, SHL
Amy McNutt Woltman*	Vice President, Associate General Counsel & Assistant Secretary, SRUS, SHI
Kristopher Louis Finsel	Vice President and Treasurer, SRUS
Richard Vincent Plati	Assistant Vice President, Assistant Treasurer, SRUS

*Resigned in 2013

Committees

The SRUS Audit Committee was established on February 23, 2012 as evidenced by a Board Resolution. Prior to the establishment of the SRUS Audit Committee, the SRGL Audit Committee acted in its capacity as the Statutory Audit Committee for the Company.

The members of the SRUS Audit Committee at December 31, 2013 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Larry Wayne Purdue	Retired, Dixon Hughes Goodman
Norman Amberson Smith	SVP & Controller, Mass Mutual Financial Group

Prior to the merger of SRUS and SRLC, the Company was required to have a 50% independent Audit Committee in compliance with 18 Del. Admin. Code 301 §14.0 “Requirements for Audit Committees”; however, following the merger the Company reported assumed premiums greater than \$500 million. As such, the Company is required to have a 75% independent Audit Committee by January 1, 2015.

The SRUS Investment Committee was established and approved by the Board of Directors on August 22, 2012. The members of the SRUS Investment Committee at December 31, 2013 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Meredith Alicia Ratajczak	President and Chief Executive Officer, SRUS, SHI Director, SRUS, SHI
Daniel Ryan Roth* *Resigned in 2014	Chief Financial Officer, SRGL, SALIC, SFL, SHL Director, SRUS, SALIC, SHI, SRLB, SRD

The Company properly reported changes in directors and officers in compliance with 18 Del. C. §4919.

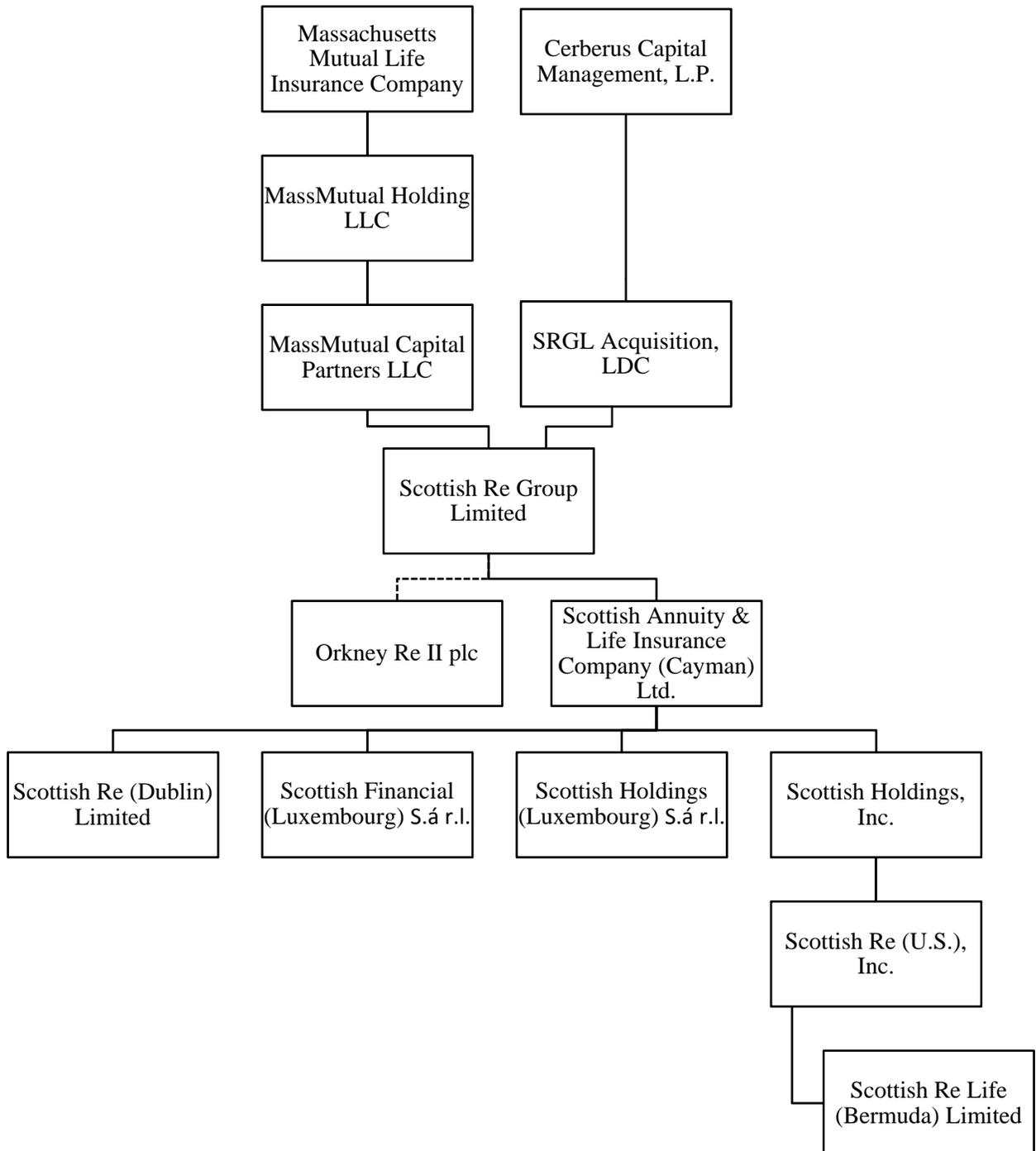
Holding Company System

The Company is a member of an insurance holding company system as defined under 18 Del. C. Ch. 50 “Insurance Holding Company System Registration”.

SRUS is a wholly-owned subsidiary of SHI, a Delaware corporation. SHI is a wholly-owned subsidiary of SALIC, a Cayman Islands company. SALIC is a wholly-owned subsidiary of SRGL, also a Cayman Islands company and the Company’s ultimate parent. SRUS had one direct subsidiary as of December 31, 2013, SRLB. Scottish Reinsurance Intermediaries (Canada) Inc. and Orkney Holdings, LLC (OHL), both of which had been wholly-owned subsidiaries of SRUS, were dissolved during 2011.

As of December 31, 2013, MassMutual Capital Partners, LLC (MassMutual Capital) and SRGL Acquisition, LDC, an affiliate of Cerberus Capital Management, L.P. (Cerberus) held in aggregate, directly or indirectly, 100% of the equity voting power, along with the right to designate members of the Board of Directors, of SRGL. SRGL Acquisition, LDC owns 63.3% and MassMutual Capital owns 36.7% of the stock. Cerberus operates as a private equity firm. Massachusetts Mutual Life Insurance Company and Stephen Feinberg (CEO of Cerberus) are ultimate controlling persons of the Company by virtue of their ownership and/or control of MassMutual Capital and Cerberus, respectively.

The following is an abbreviated organizational listing that reflects the identities and interrelationships between the Massachusetts Mutual Life Insurance Company, Cerberus, the Company and its affiliates as of December 31, 2013:



Management and Services Agreements

Affiliated Agreements

The Company is party to the following agreements with its parent, affiliates, and subsidiaries that have been approved by the Delaware Department of Insurance:

- Asset Management Services Fee Agreement, effective October 1, 2009, whereby SRGL provides asset management services to the Company;
- Management Services Fee Agreement, effective January 1, 2005 and amended on January 1, 2012, whereby SRGL provides management services to the Company;
- Support Services agreement, effective December 31, 2007, whereby SHI provides information technology services to the Company (no services are currently being provided);
- Support Services Agreement, effective December 31, 2007, whereby the Company provides services including information technology support services, legal services, administrative support services, etc. to SALIC;
- Support Services Agreement, effective December 31, 2007, whereby the Company provides services including information technology support services, legal services, administrative support services, etc. to SRD;
- Support Services Agreement, effective December 31, 2007, whereby the Company provides services including information technology support services, legal services, administrative support services, etc. to SRGL;
- Support Services Agreement, effective December 31, 2007, whereby the Company provides services including information technology support services, legal services, administrative support services, etc. to SHI;
- Support Services Agreement, effective December 31, 2007, whereby the Company provides services including information technology support services, legal services, administrative support services, etc. to SRLB.

The Company is party to a Tax Allocation Agreement with SRLB. There were no current federal and foreign income tax recoverables pursuant to this agreement and no net gain or loss for fees paid and received as a result of this agreement as of December 31, 2013.

The Company is a party to a net worth maintenance agreement as restated February 1, 2002 with SALIC pursuant to which SALIC will make capital contributions to the Company as

necessary in order for the Company's Risk-Based Capital (RBC) level to remain above certain statutory minimums. As of December 31, 2013, the fees were based on SALIC's average historical contributions over a five-year period to the Company under the Net Worth Maintenance Agreement (NWMA), multiplied by an average yield on investments for SALIC. The fee for 2013 was \$740,000. The Company has submitted an amendment which was approved by the Delaware Department of Insurance on March 11, 2015 to change the method that the fees are calculated.

Other Agreements

The Company utilizes investment management services provided by Babson Capital Management, LLC (Babson) through its Asset Management Services Agreement with SRGL and General Re – New England Asset Management, Inc. (NEAM). The Company maintains a contract with SS&C Technologies, Inc. dated November 2, 2009, amended on December 15, 2011 and November 27, 2013, for investment processing, which includes providing and maintaining a processing software operating environment for the Company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was licensed in 16 states and in the District of Columbia as a Reinsurer. It was also a Qualified or an Accredited Reinsurer in 33 states, making it eligible to conduct reinsurance business in all 50 states and the District of Columbia.

During the previous examination, the Company ceased assuming new insurance from direct writing insurers and discontinued entering into new reinsurance contracts. The Company was placed under an Order of Supervision by the Delaware Insurance Department on January 5, 2009 in accordance with 18 Del. C. §5942, which subsequently was amended and replaced with an Extended and Amended Order of Supervision, dated April 3, 2009. By an order dated June

23, 2011, the Delaware Insurance Department determined that its supervision of the Company was no longer required and formally released the Company from the Amended Order. After the release of Order of Supervision by the Delaware Insurance Commissioner, the Company provided the Department with a written “Undertaking” in which the Company agreed that it would not, without the prior written consent of the Department, solicit, issue, or otherwise write or enter into any new contracts of insurance or reinsurance. On October 29th, 2013, the management of SRUS requested that the Delaware Insurance Department lift the restriction to assume new business and allow the Company to pursue new business opportunities. As previously mentioned, the Delaware Department of Insurance agreed to no longer restrict the Company from soliciting or writing new business on February 27, 2014. As of the date of this examination, the company has not written any new business.

The Company continues to assume insurance from direct writing insurers under existing reinsurance contracts in the following categories:

Traditional Solutions: Mortality risk on life insurance policies written by primary insurers (which business is often referred to as traditional life reinsurance). The products reinsured in Traditional Solutions business include yearly renewable term life, term life with multi-year guarantees, ordinary life, universal life, and variable life. The Traditional Solutions business was predominantly written on an automatic basis, meaning that the Company automatically reinsured all policies written by a ceding company that met the underwriting criteria specified in the treaty with the ceding company.

Financial Solutions: Contracts under which the Company assumed the investment and persistency risks of existing, as well as then newly-written blocks

of business. The products reinsured include deferred fixed and variable annuities, annuity-type products, cash value life insurance, and, to a lesser extent, disability products that are in a pay-out phase.

REINSURANCE

The Company operates as a professional reinsurer. The Company has not written any new business during the period under examination; however, the Company continues to assume reinsurance from direct writing insurers under existing reinsurance contracts.

The Company reinsures mortality risk on a variety of life insurance products written by primary direct writers. The Company has excess retention pools to retrocede any risk over \$500,000 on a per life basis for its traditional life line of business on policies issued in 2004 and prior and in excess of \$1,000,000 on policies with 2005 issue dates. In 2012, the Company recaptured its excess retrocession coverage on business written from 2002 through 2004 up to \$3,000,000.

Assumed

As of December 31, 2013, the statutory reserves for the assumed business of \$3,326,411,209 was comprised of \$3,319,053,756 life reserves and \$7,357,453 accident and health reserves. The five largest direct writers, in terms of reinsurance reserves held by the Company were as follows:

Insurer	Reserves
Lincoln National Life Insurance Company*	\$ 307,509,715
Protective Life and Annuity Insurance Company	306,801,333
John Hancock Life Insurance Company (USA)	303,156,902
First Penn-Pacific Life Insurance Company*	212,684,688
Pacific Life Insurance Company	201,542,964
Total Reserves	\$ 1,331,695,602

*Lincoln Financial Group

Ceded

The Company ceded \$2,413,564,421 life reserves at year end 2013 to affiliated and non-affiliated insurers. The largest Retrocessionaires by reserve credits taken by the Company, (both affiliated and non-affiliated) are listed below:

Affiliated	Reserve Credits
Orkney Re II, PLC	\$ 332,001,514
Scottish Annuity & Life Insurance Company (Cayman) Ltd.	167,551,812
Non-Affiliated	Reserve Credits
Hannover Life Reassurance Company of America	\$ 1,668,009,592

On January 22, 2009, the Company and certain of its Scottish Re affiliates (Scottish Re) entered into a Master Asset Purchase Agreement (Purchase Agreement) with Hannover Life Reassurance Company of America and its affiliate (together, Hannover Re), Security Life of Denver (SLD), a subsidiary of ING, and its affiliate (together ING Companies), pursuant to which Hannover Re agreed to purchase from Scottish Re a block of individual life reinsurance business acquired in 2004 by Scottish Re from the ING Companies. The block consisted primarily of term life reinsurance, universal life with secondary guarantees, and yearly renewable term business (Acquired Business). The Acquired Business does not include business formerly reinsured from the Company to Ballantyne Re plc, as this business was novated and assigned to SLD effective October 1, 2008. The closing of the transaction, which included certain customary conditions to closing and the receipt of required governmental and regulatory approvals, occurred on February 20, 2009.

Subsequent to year end 2009, the contract with Union Hamilton Reinsurance Ltd. (which was business assumed from SLD) was novated and Hannover Re replaced Scottish Re as the

Scottish Re (U.S.), Inc.

reinsurer. Ceded reserves in the amount of \$929,636,645 were reported by the Company for year-end 2008.

Collateral Facilities Supporting the Company's Business

Orkney I

On February 11, 2005, OHL issued and sold, in a private offering, an aggregate of \$850.0 million of 30-year maturity securities due February 11, 2035 (the Orkney Notes). OHL was organized for the limited purpose of issuing the Orkney Notes and holding the stock of Orkney Re, Inc. (ORE and, together with OHL, the Orkney I Structure). ORE originally was a South Carolina special purpose financial captive insurance company prior to its 2007 redomestication to Delaware as a Delaware special purpose captive reinsurer. Proceeds from the private offering were used to fund the Valuation of Life Insurance Policies Model Regulation (Regulation XXX) reserve requirements associated with a defined block of level premium term life insurance policies issued by third party ceding companies between January 1, 2000 and December 31, 2003, and reinsured by the Company to ORE (the Orkney Block). The Orkney Notes had recourse only to OHL and not to the Company or any of its other affiliates.

In 2009, the Company and its affiliates were informed by Cerberus that one or more of Cerberus' affiliates had acquired, from one or more unaffiliated third parties, \$700.0 million in aggregate principal amount of the Orkney Notes. The Company, OHL, ORE nor any other affiliate was a party to this purchase. No terms of the Orkney Notes or any of the underlying transaction documents were changed as a result of this purchase.

On April 15, 2011, the Company entered into agreements to unwind the Orkney I Structure and to recapture from ORE and immediately cede to Hannover Life Reassurance Company of America (Hannover Life Re) the Orkney Block (the Orkney I Unwind Transaction).

The Orkney I Unwind Transaction was closed on May 27, 2011. As part of the Orkney I Unwind Transaction, the Company recaptured the Orkney Block from ORE (the Orkney Recapture) and immediately ceded the Orkney Block to Hannover Life Re pursuant to the Coinsurance Reinsurance Agreement, effective January 1, 2011 (the New Reinsurance Agreement).

The closing of the Orkney I Unwind Transaction was subject to a number of closing conditions, including the receipt of required regulatory approvals from the Delaware Department of Insurance, which were received on May 25, 2011.

Following receipt by the Company of the recapture consideration from ORE and the payment of the ceding commission and other closing amounts to Hannover Life Re under the New Reinsurance Agreement, all assets thereafter remaining in the accounts at ORE were released to OHL. The remaining assets were used by OHL to purchase all of the outstanding Orkney Notes pursuant to privately-negotiated purchase agreements (the Note Purchase Agreements) for an aggregate amount of \$590.0 million, which represented a discount to the \$850.0 million aggregate principal amount of the Orkney Notes. Following the repurchase of the Orkney Notes, OHL immediately cancelled the Orkney Notes, and, thereafter, transferred its remaining assets to the Company as a return of capital.

The Orkney I Unwind Transaction generated a statutory net loss to the Company of \$180.4 million following the write-off of the Company's original investment in OHL and net of a \$70.0 million release of asset adequacy reserves; however, the write-off of the OHL investment was surplus neutral, because the Company had previously reduced the carrying value of its investment in OHL to \$0. The Orkney I Unwind Transaction strengthened the Company's statutory capital and surplus by \$91.9 million.

Orkney II

On December 21, 2005, a Regulation XXX securitization was completed through the issuance by Orkney Re II plc (Orkney Re II), a special purpose vehicle incorporated under the laws of Ireland, of \$450.0 million of 30-year maturity securities due December 21, 2035 (the Orkney II Notes). Proceeds from this transaction were used to fund the Regulation XXX reserve requirements associated with a defined block of level premium term life insurance policies issued by third party ceding companies between January 1, 2004 and December 31, 2004, and reinsured by the Company to Orkney Re II. The securities issued by Orkney Re II have recourse only to Orkney Re II and not to the Company or any of the Company's affiliated entities.

Following the delivery by Assured Guaranty (UK) Ltd. (Assured) (as the financial guarantor of certain of the Orkney II Notes) of a notice of default in respect of the Orkney II transaction and the subsequent direction by Assured to the Orkney II trustee to accelerate the Orkney II Notes and election by Assured to foreclose upon the transaction collateral, on June 26, 2009, the Company exercised its contractual right under its agreements with Orkney Re II to withdraw all of the assets from the reserve credit trust previously established by Orkney Re II for the benefit of the Company. The withdrawn assets were deposited into segregated accounts of the Company pursuant to the terms of the reinsurance agreement between the Company and Orkney Re II (the Orkney Re II Reinsurance Agreement). The withdrawn assets continue to be held in the segregated accounts in order to further secure Orkney Re II's obligations to the Company under the Orkney Re II Reinsurance Agreement, including providing reserve credit to the Company for the reinsurance liabilities that continue to be ceded to Orkney Re II and for certain other permissible uses under the Orkney Re II Reinsurance Agreement. As such, Orkney Re II Reinsurance Agreement is accounted for on a coinsurance with funds withheld basis and is

reported in the statutory-basis balance sheets as “Funds held under reinsurance with unauthorized reinsurers”.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company’s operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure. The examination reviewed the Company’s documented controls. In situations where the examination did not test controls, substantive procedures were performed during the examination.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers and systems that include business production, cash receipts, policy administration, reinsurance administration, investment accounting, etc.

The financially significant applications/systems used to process business are as follows:

Application	Function	Key Activity	Location	Platform
SAGE	Reinsurance Administration	Reinsurance	Charlotte, NC*	Windows 2003
Business Objects	Reinsurance	Reinsurance	Charlotte, NC*	Windows 2003
Microsoft Reporting	Reinsurance	Reinsurance	Charlotte, NC*	Windows 2003
Radar	Reinsurance	Reinsurance	Charlotte, NC*	Windows 2003
PeopleSoft	Accounts Payable, General Ledger, Financial Reporting	Accounting	Charlotte, NC	Windows 2003
TRAXX	Reinsurance	Reinsurance	Charlotte, NC	Windows 2003

- Administered by Hannover Life Re

A trial balance extracted from the general ledger for the year ending December 31, 2013, was reconciled to the appropriate exhibits and schedules in the filed annual statement.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Delaware Department of Insurance and present the financial condition of the Company for the period ending December 31, 2013.

Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account

The narrative on the reserve related balances is presented in the Notes to the Financial Statements section of this report.

Assets
December 31, 2013

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$1,441,526,399	\$ -	\$1,441,526,399	
Preferred stocks	1,550,000	-	1,550,000	
Common stocks	531,210	-	531,210	
Cash and short-term investments	134,748,348	-	134,748,348	
Contract loans	103,688	-	103,688	
Receivables for securities	411,257	-	411,257	
Investment income due and accrued	10,932,967	-	10,932,967	
Uncollected premiums and agents' balances in course of collection	71,716,744	-	71,716,744	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	67,754	-	67,754	
Amounts recoverable from reinsurers	91,894,395	-	91,894,395	
Other amounts receivable under reinsurance contracts	49,219,471	-	49,219,471	
Furniture and equipment	204,768	204,768	-	
Receivable from parent, subsidiaries and affiliates	655,430	-	655,430	
Remittances and items not allocated	4,766,528	-	4,766,528	
Foreign taxes held at source	<u>62,932</u>	-	<u>62,932</u>	
Totals	<u>\$1,808,391,891</u>	<u>\$ 204,768</u>	<u>\$1,808,187,123</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Liabilities, Surplus and Other Funds
December 31, 2013

		<u>Note</u>
Aggregate reserve for life contracts	\$ 989,472,127	1
Aggregate reserve for accident and health contracts	7,018,279	
Liability for deposit-type contracts	17,209	
Contract claims: life	114,705,503	
Contract claims: accident and health	392,250	
Premiums and annuity considerations for life and accident and health contracts received in advance	10,638	
Surrender values on canceled contracts	3,851,745	
Provision for experience rating refunds	4,470,849	
Other amounts payable on reinsurance assumed and ceded	103,185,631	
Interest maintenance reserve	15,109,519	
Commissions and expense allowances payable on reinsurance assumed	12,140,017	
General expenses due or accrued	3,121,826	
Taxes, licenses and fees due or accrued	1,733,848	
Remittances and items not allocated	3,329,750	
Asset valuation reserve	10,215,124	
Reinsurance in unauthorized companies	1,058,369	
Funds held under reinsurance treaties with unauthorized reinsurers	366,561,489	
Payable for securities	37,213	
Flexible spending account payable	<u>9,273</u>	
Total Liabilities	\$ 1,636,440,659	
Common capital stock	3,600,000	
Deferred gain on reinsurance	209,179,096	
Gross paid in and contributed surplus	1,180,123,943	
Unassigned funds (surplus)	(1,221,156,575)	
Total Capital and Surplus	<u>171,746,464</u>	
Total Liabilities, Surplus and Other Funds	<u>\$ 1,808,187,123</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Summary of Operations
December 31, 2013

		<u>Note</u>
Income:		
Premiums earned	\$ 251,159,058	
Net investment income earned	67,149,962	
Amortization of interest maintenance reserve	3,960,246	
Commissions and expense allowances on reinsurance ceded	47,569,721	
Reserve adjustments on reinsurance ceded	(41,604,692)	
Interest credited on assumed funds held by counterparty	12,075,324	
Fee income	887,547	
Miscellaneous income	<u>(368)</u>	
Total income	<u>\$ 341,196,798</u>	
Expenses:		
Death benefits	278,452,172	
Annuity benefits	16,600,688	
Disability benefits & benefits under accident & health contracts	1,753,450	
Surrender benefits & withdrawals for life contracts	41,690,126	
Increase in aggregate reserves for life & accident & health contracts	(50,339,735)	
Commissions & expense allowances on reinsurance assumed	58,281,449	
General insurance expenses	20,219,456	
Insurance taxes, licenses and fees	(663,206)	
Increase in loading on deferred & uncollected premiums	(5,037)	
Interest credited on ceded funds held	29,032,582	
Brokerage fees	472,102	
Modco reserve adjustment on reinsurance assumed	<u>(32,229,527)</u>	
Total expenses	<u>\$ 363,264,520</u>	
Net income before federal income taxes incurred	(22,067,722)	
Net realized capital gains	(2,155,944)	
Net income	<u>\$ (24,223,666)</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Capital and Surplus Account
December 31, 2008 to December 31, 2013

Note

Surplus as regards policyholders, December 31, 2008 \$167,348,079

Additions:

Change in net unrealized capital gains (losses)	\$258,115,483
Change in nonadmitted assets	256,170,941
Change in liability for reinsurance in unauthorized companies	32,228,774
Change in reserve on account of change in valuation basis	17,191,113
Cumulative effect of changes in accounting principles	57,706,309
Paid in surplus	<u>58,871,738</u>

Total additions \$680,284,358

Deductions:

Net income	\$ (124,309,501)
Change in net deferred income tax	(220,398,557)
Change in surplus notes	(100,000,000)
Change in asset valuation reserve	(8,653,468)
Change in surplus as a result of reinsurance	(221,133,713)
Aggregate write-ins for gains and losses in surplus	(1,390,734)

Total deductions (675,885,973)

Net change in surplus as regards policyholders for the year 4,398,385

Surplus as regards policyholders, December 31, 2013 \$171,746,464

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Aggregate reserve for life contracts \$989,472,127

The Delaware Department of Insurance contracted INS Consultants, Inc. to perform an actuarial review of the Company's reserves.

As part of the annual certificate of reserve valuation procedure, INS reviewed the December 31, 2013 Exhibit 5 reserve and the Exhibit 7 liability. During that process, Company work papers supporting these reserves and liabilities were reviewed and found to be in order.

Reserve testing of individual policies was not performed as all reserves are either reported to SRUS by the ceding companies or adjusted using aggregate reserve calculations based on the asset adequacy modeling, with the exception of the 2004 and later issues of Orkney II and retained business where the Company calculates reserves using the 2001 CSO mortality tables. INS reviewed SRUS' work papers and actuarial reserve certification sheets which were provided by the ceding companies.

The financial examiners utilized the NAIC jumpstart reports to compare reinsurance reserves assumed and ceded by the Company to the reserves reported by the ceding and assuming companies. Material variances were reviewed and satisfactory explanations with supporting documentation were provided by the Company.

In-force and reserve trend analyses were also performed. A decreasing trend appears reasonable since there has been no new business added during the examination period.

The examination also included a review of the Actuarial Opinion Memorandum (AOM) and the associated asset adequacy testing (AAT) as performed by the Company's appointed actuary.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's compliance with prior examination recommendations was reviewed for compliance in the current examination. The Company complied with the prior examination recommendations.

SUMMARY OF RECOMMENDATIONS

No examination report recommendations were noted as a result of this examination.

CONCLUSION

The following schedule reflects the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2008</u>	<u>December 31, 2013</u>	<u>Increase (Decrease)</u>
Assets	\$2,197,037,960	\$1,808,187,123	\$(388,850,837)
Liabilities	\$2,029,689,881	\$1,636,440,659	\$(393,249,222)
Capital and Surplus	\$167,348,079	\$171,746,464	\$ 4,398,385

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,



Lu Ann D. Therrell, CFE
Examiner In-Charge
State of Delaware