
SCOTTISH RE GROUP LIMITED

FINANCIAL STATEMENTS

FOR THE QUARTERLY PERIOD ENDED

JUNE 30, 2008

(Issued with Effective Date of September 25, 2008)

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SCOTTISH RE GROUP LIMITED
CONSOLIDATED BALANCE SHEETS
(Expressed in Thousands of United States dollars, except share data)

	June 30, 2008	December 31, 2007
	<u>(Unaudited)</u>	<u>(Audited)</u>
ASSETS		
Fixed maturity investments, trading at fair value (2007 - available for sale at fair value, amortized cost \$7,582,850).....	\$ 6,069,094	\$ 7,621,242
Preferred stock, trading at fair value (2007 - available for sale at fair value, cost \$88,914).....	86,312	88,973
Cash and cash equivalents	1,293,329	822,851
Other investments	29,802	62,664
Funds withheld at interest.....	1,856,451	1,597,336
Total investments.....	<u>9,334,988</u>	<u>10,193,066</u>
Accrued interest receivable	50,463	57,809
Reinsurance balances and risk fees receivable	469,233	479,094
Deferred acquisition costs	577,984	620,765
Amount recoverable from reinsurers	594,503	562,537
Present value of in-force business	43,782	45,560
Other assets.....	122,872	140,230
Current income tax receivable	11,484	11,069
Deferred tax asset	6,688	6,988
Assets held for sale.....	551,039	703,945
Total assets	<u>\$ 11,763,036</u>	<u>\$ 12,821,063</u>
LIABILITIES		
Reserves for future policy benefits.....	\$ 4,186,481	\$ 4,071,901
Interest sensitive contract liabilities	2,707,788	2,560,785
Collateral finance facilities.....	3,933,631	3,980,379
Accounts payable and other liabilities	314,675	287,611
Reinsurance balances payable	250,833	175,168
Deferred tax liability.....	1,022	165
Long term debt	129,500	129,500
Liabilities held for sale	551,039	703,945
Total liabilities.....	<u>12,074,969</u>	<u>11,909,454</u>
MINORITY INTEREST	8,723	9,025
MEZZANINE EQUITY		
Convertible cumulative participating preferred shares, (liquidation preference, \$650.0 million)	555,857	555,857
Total mezzanine equity.....	<u>555,857</u>	<u>555,857</u>
Commitments and contingencies (Note 11)		
SHAREHOLDERS' EQUITY		
Ordinary shares, par value \$0.01:		
Issued 68,383,370 shares (2007 – 68,383,370).....	684	684
Non-cumulative perpetual preferred shares, par value \$0.01:		
Issued: 5,000,000 shares (2007 – 5,000,000).....	125,000	125,000
Additional paid-in capital	1,216,112	1,214,886
Accumulated other comprehensive income	27,616	48,556
Retained deficit.....	(2,245,925)	(1,042,399)
Total shareholders' (deficit) equity.....	<u>(876,513)</u>	<u>346,727</u>
Total liabilities, minority interest, mezzanine equity and shareholders' (deficit) equity.....	<u>\$ 11,763,036</u>	<u>\$ 12,821,063</u>

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(Expressed in Thousands of United States dollars, except share data)

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Revenues				
Premiums earned, net	\$ 469,734	\$ 446,296	\$ 897,620	\$ 904,510
Fee and other income.....	4,291	4,234	7,709	8,864
Investment income, net.....	105,863	160,879	213,875	302,476
Net realized and unrealized losses.....	(320,257)	(2,055)	(981,568)	(6,344)
Change in value of embedded derivatives, net	9,366	(1,063)	(2,141)	954
Total revenues	<u>268,997</u>	<u>608,291</u>	<u>135,495</u>	<u>1,210,460</u>
Benefits and expenses				
Claims and other policy benefits	457,742	383,886	825,051	763,894
Interest credited to interest sensitive contract liabilities	21,569	36,420	42,626	71,722
Acquisition costs and other insurance expenses, net ...	135,743	96,501	232,504	191,608
Operating expenses.....	43,576	59,802	88,898	94,382
Collateral finance facilities expense	76,602	75,285	137,629	148,980
Interest expense	2,205	8,034	5,078	11,610
Total benefits and expenses	<u>737,437</u>	<u>659,928</u>	<u>1,331,786</u>	<u>1,282,196</u>
Loss before income taxes and minority interest.....	<u>(468,440)</u>	<u>(51,637)</u>	<u>(1,196,291)</u>	<u>(71,736)</u>
Income tax benefit (expense).....	2,487	154,321	(5,068)	140,940
(Loss) income before minority interest.....	<u>(465,953)</u>	<u>102,684</u>	<u>(1,201,359)</u>	<u>69,204</u>
Minority interest.....	(17)	6	99	274
Net (loss) income.....	<u>(465,970)</u>	<u>102,690</u>	<u>(1,201,260)</u>	<u>69,478</u>
Dividend declared on non-cumulative perpetual preferred shares	-	(2,265)	(2,266)	(4,531)
Deemed dividend on beneficial conversion feature related to convertible cumulative participating preferred shares	-	(120,750)	-	(120,750)
Net loss attributable to ordinary shareholders	<u><u>\$ (465,970)</u></u>	<u><u>\$ (20,325)</u></u>	<u><u>\$ (1,203,526)</u></u>	<u><u>\$ (55,803)</u></u>
Loss per ordinary share - Basic	<u><u>\$ (6.81)</u></u>	<u><u>\$ (0.30)</u></u>	<u><u>\$ (17.60)</u></u>	<u><u>\$ (0.84)</u></u>
Loss per ordinary share - Diluted	<u><u>\$ (6.81)</u></u>	<u><u>\$ (0.30)</u></u>	<u><u>\$ (17.60)</u></u>	<u><u>\$ (0.84)</u></u>
Dividends declared per ordinary share	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Weighted average number of ordinary shares outstanding				
Basic	<u>68,383,370</u>	<u>68,195,614</u>	<u>68,383,370</u>	<u>66,204,855</u>
Diluted.....	<u>68,383,370</u>	<u>68,195,614</u>	<u>68,383,370</u>	<u>66,204,855</u>

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(UNAUDITED)

(Expressed in Thousands of United States dollars)

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Net (loss) income	\$ (465,970)	\$ 102,690	\$ (1,201,260)	\$ 69,478
Other comprehensive income (loss):				
Unrealized depreciation on investments	(319,847)	(67,361)	(1,009,257)	(76,320)
Reclassification adjustment for net realized and unrealized losses included in net (loss) income	319,847	(2,813)	982,947	(5,682)
Net unrealized depreciation on investments, net of minority interest	-	(70,174)	(26,310)	(82,002)
Cumulative translation adjustment	124	2,850	5,370	3,390
Other comprehensive income (loss)	124	(67,324)	(20,940)	(78,612)
Comprehensive (loss) income	<u>\$ (465,846)</u>	<u>\$ 35,366</u>	<u>\$ (1,222,200)</u>	<u>\$ (9,134)</u>

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT) EQUITY
(UNAUDITED)

(Expressed in Thousands of United States dollars, except share data)

	Six months ended	
	June 30, 2008	June 30, 2007
Share capital:		
Ordinary shares:		
Beginning of period	\$ 684	\$ 606
Issuance to holders of HyCUs on conversion of purchase contracts	-	74
Issuance to holders of restricted stock awards	-	4
End of period	<u>684</u>	<u>684</u>
Non cumulative perpetual preferred shares:		
Beginning and end of period.....	<u>125,000</u>	<u>125,000</u>
Additional paid-in capital:		
Beginning of period	1,214,886	1,050,860
Option and restricted stock unit expense	1,226	10,051
Issuance to holders of HyCUs on conversion of purchase contracts	-	143,675
Beneficial conversion feature related to convertible cumulative participating preferred shares	-	120,750
Accretion of beneficial conversion feature related to convertible cumulative participating preferred shares.....	-	(120,750)
Other.....	-	43
End of period	<u>1,216,112</u>	<u>1,204,629</u>
Accumulated other comprehensive income (loss):		
Unrealized appreciation (depreciation) on investments net of income taxes, deferred acquisition costs and minority interest		
Beginning of period	26,310	(19,624)
Change in period.....	(26,310)	(82,002)
End of period	<u>-</u>	<u>(101,626)</u>
Cumulative translation adjustment		
Beginning of period	24,590	22,826
Change in period (net of tax)	5,370	3,390
End of period	<u>29,960</u>	<u>26,216</u>
Benefit plans		
Beginning and end of period	<u>(2,344)</u>	<u>(2,862)</u>
Total accumulated other comprehensive income (loss).....	<u>27,616</u>	<u>(78,272)</u>
Retained deficit:		
Beginning of period	(1,042,399)	(119,614)
Adoption of FIN 48 on January 1, 2007	-	(17,981)
Net (loss) income.....	(1,201,260)	69,478
Dividends declared on non-cumulative perpetual preferred shares	(2,266)	(4,531)
End of period	<u>(2,245,925)</u>	<u>(72,648)</u>
Total shareholders' (deficit) equity	<u>\$ (876,513)</u>	<u>\$ 1,179,393</u>

See Accompanying Notes to Consolidated Financial Statements (unaudited)

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Expressed in Thousands of United States dollars)

	Six months ended	
	June 30, 2008	June 30, 2007
Operating activities		
Net (loss) income.....	\$ (1,201,260)	\$ 69,478
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Net realized losses	981,568	6,344
Changes in value of embedded derivatives, net.....	2,141	(954)
Amortization of discount on fixed maturity investments and preferred stock	281	6,085
Amortization and write-downs of deferred acquisition costs	77,306	41,642
Amortization and write down of present value of in-force business	1,778	1,497
Amortization and write-downs of deferred transaction costs	14,688	8,838
Depreciation of fixed assets.....	4,980	5,343
Option and restricted stock unit expense	1,226	10,051
Minority interest	(99)	(274)
Changes in assets and liabilities:		
Accrued interest receivable.....	7,248	(1,173)
Reinsurance balances and risk fees receivable	85,181	(51,736)
Deferred acquisition costs.....	(27,825)	(40,671)
Deferred tax asset and liability	6,855	(171,491)
Other assets.....	4,788	37,251
Current income tax receivable and payable	(372)	6,475
Reserves for future policy benefits, net of amounts recoverable from reinsurers.....	85,433	195,131
Funds withheld at interest.....	(259,115)	194,506
Interest sensitive contract liabilities.....	(5,099)	(150,784)
Accounts payable and other liabilities	25,293	81,521
Net cash (used in) provided by operating activities.....	<u>(195,004)</u>	<u>247,079</u>
Investing activities		
Purchase of fixed maturity investments.....	(33,880)	(455,019)
Proceeds from sales of fixed maturity investments	270,453	125,157
Proceeds from maturity and return of capital of fixed maturity investments	297,310	304,533
Purchase of preferred stock	-	(1,574)
Proceeds from sale and maturity of preferred stock	2,800	9,982
Purchase of and proceeds from other investments, net.....	29,581	1,203
Purchase of fixed assets.....	(1,643)	(2,893)
Net cash provided by (used in) investing activities	<u>564,621</u>	<u>(18,611)</u>
Financing activities		
Deposits to interest sensitive contract liabilities.....	725	5,627
Withdrawals from interest sensitive contract liabilities.....	(175,850)	(65,809)
Proceeds from issuance of convertible cumulative participating preferred shares	-	556,049
Proceeds from issuance to holders of HyCUs on conversion of purchase contracts	-	7,338
Redemption of convertible preferred shares.....	-	(7,338)
Dividends paid on redemption of convertible preferred shares	-	(222)
(Payments on) proceeds from collateral finance facilities.....	(46,748)	43,169
Proceeds from (repayment on) drawdown of Stingray facility.....	325,000	(275,000)
Proceeds from issuance of ordinary shares.....	-	78
Dividends paid on non-cumulative perpetual preferred shares.....	(2,266)	(4,531)
Net cash provided by financing activities.....	<u>100,861</u>	<u>259,361</u>
Net change in cash and cash equivalents.....	470,478	487,829
Cash and cash equivalents, beginning of period.....	822,851	622,756
Cash and cash equivalents, end of period.....	<u>\$ 1,293,329</u>	<u>\$ 1,110,585</u>

See Accompanying Notes to Consolidated Financial Statements (unaudited)

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

1. Organization and Business

Organization

Scottish Re Group Limited (“SRGL”) is a holding company incorporated under the laws of the Cayman Islands with our principal executive office in Bermuda. Through our operating subsidiaries, we are principally engaged in the reinsurance of life insurance, annuities and annuity-type products. We have principal operating companies in Bermuda, the Cayman Islands, Ireland, the United Kingdom and the United States, a branch office in Singapore, and a representative office in Japan.

Change in Strategic Focus

We have faced a number of significant challenges during the latter part of 2007 and continuing into 2008 which have required us to change our strategic focus. These challenges have included:

- The continuing deterioration in the U.S residential housing market in general and the market for sub-prime and Alt-A residential mortgage-backed securities specifically. These conditions have had, and will likely continue to have, a material adverse effect on the value of our consolidated investment portfolio and our capital, liquidity and collateral position;
- The negative outlooks placed on our financial strength ratings by each of the rating agencies in November 2007, followed by the ratings action taken by Standard & Poors (“S&P”) in early 2008 lowering the financial strength ratings of our operating subsidiaries from “BB+” to “BB” (marginal) and placing the ratings on CreditWatch with negative implications, as well as the subsequent ratings downgrades and negative outlooks placed on our financial strength ratings by other rating agencies (which ratings were subsequently lowered further, as described under “Competition and Ratings”), with the resulting material
- The negative impact on our ability to achieve our previous goal of attaining an “A-” or better rating by the middle of 2009; and
- The material negative impact of ratings declines and negative outlooks by rating agencies on our ability to grow our life reinsurance businesses and maintain our core competitive capabilities.

In light of these circumstances, our Board of Directors (the “Board”) instructed management to prepare an assessment of the various strategic alternatives that might be available to us to maximize shareholder value. On January 21, 2008 our Board established a special committee to evaluate the alternatives developed by management (the “Special Committee”). The Special Committee does not include any board members designated for election by SRGL Acquisition, LDC, an affiliate of Cerberus, or MassMutual Capital (or their affiliates), who together are our majority shareholders. The Special Committee engaged a financial advisor and legal counsel to assist in their evaluation process. Subsequent to various meetings, the Special Committee recommended to the Board, at its regularly scheduled meeting on February 21, 2008, to accept management’s revised business strategy.

The Board unanimously adopted the Special Committee’s recommendations and we announced on February 22, 2008 our pursuit of the following key strategies:

- Dispose of our non-core assets or lines of business, including the Life Reinsurance International Segment and the Wealth Management business;
- Develop, through strategic alliances or other means, opportunities to maximize the value of our core competitive capabilities within the Life Reinsurance North America Segment, including mortality assessment and treaty administration; and
- Rationalize our cost structure to preserve capital and liquidity.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

1. Organization and Business (continued)

These new strategies have materially impacted, and will continue to materially impact, the conduct of our business going forward. In particular, we have ceased writing new reinsurance treaties and have notified our existing clients that we will not be accepting any new reinsurance risks under existing treaties. We have also taken steps to reduce expenses, including reducing staffing levels. If we are not successful in selling our Life Reinsurance North America Segment, we will follow a run-off strategy for our Life Reinsurance North America Segment, whereby we will continue to receive premiums, pay claims and perform key activities under our existing reinsurance treaties and will be required to record appropriate statutory reserves for the duration of these reinsurance obligations. We have determined it is likely that, during the first quarter of 2009, we will need additional capital and liquidity to support our run-off strategy and other Corporate financial obligations. To the extent we are unsuccessful in securing additional sources of capital and liquidity, our insurance operating subsidiaries could become insolvent and we may need to seek bankruptcy protection.

Business

We have three reportable segments: Life Reinsurance North America, Life Reinsurance International and Corporate and Other. The life reinsurance operating segments have written reinsurance business that is wholly or partially retained in one or more of our reinsurance subsidiaries. We have changed our strategic focus and have sold our Life Reinsurance International Segment on July 18, 2008 and sold a portion of our Wealth Management business on July 11, 2008 and the remainder on August 5, 2008. We have also stopped writing new business and have initiated a process to sell our Life Reinsurance North America Segment.

Life Reinsurance North America

In our Life Reinsurance North America Segment, we have assumed risks associated with primary life insurance, annuities and annuity-type policies. We reinsure mortality, investment, persistency and expense risks of United States life insurance and reinsurance companies. Most of the reinsurance assumed is through automatic treaties, but in 2006 we also began assuming risks on a facultative basis. The Life Reinsurance North America Segment suspended bidding for new treaties on March 3, 2008. We have issued notices of cancellation for all open treaties and we expect all new business to cease over the remainder of 2008. The business we have written falls into two categories: Traditional Solutions and Financial Solutions, as detailed below.

Traditional Solutions: We reinsure the mortality risk on life insurance policies written by primary insurers. The business is often referred to as traditional life reinsurance. We wrote our Traditional Solutions business predominantly on an automatic basis. This means that we automatically reinsure all policies written by a ceding company that meet the underwriting criteria specified in the treaty with the ceding company.

Financial Solutions: Financial Solutions include contracts under which we assumed the investment and persistency risks of existing, as well as newly written, blocks of business that improve the financial position of our clients by increasing their capital availability and statutory surplus. The products reinsured include annuities and annuity-type products, cash value life insurance and, to a lesser extent, disability products that are in a pay-out phase. This line of business includes acquired solutions products in which we provided our clients with exit strategies for discontinued lines, closed blocks, or lines not providing a good fit for a client's growth strategies.

Life insurance products that we reinsure include yearly renewable term, term with multi-year guarantees, ordinary life and variable life. Retail annuity products that we reinsure include fixed deferred annuities and equity indexed annuities.

For these products, we wrote reinsurance generally in the form of yearly renewable term, coinsurance or modified coinsurance. Under yearly renewable term, we share only in the mortality risk for which we receive a premium. In a coinsurance or modified coinsurance arrangement, we generally share proportionately in all material risks inherent in the underlying policies, including mortality, lapses and investments.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

1. Organization and Business (continued)

Under such agreements, we agree to indemnify the primary insurer for all or a portion of the risks associated with the underlying insurance policy in exchange for a proportionate share of premiums. Coinsurance differs from modified coinsurance with respect to the ownership of the assets supporting the reserves. Under our coinsurance arrangements, ownership of these assets is transferred to us, whereas, in modified coinsurance arrangements, the ceding company retains ownership of these assets, but we share in the investment income and risk associated with the assets.

On April 4, 2008, we announced our intent to pursue the sale of the Life Reinsurance North America Segment in furtherance of our previously announced strategy to develop opportunities to maximize the value of our core competitive capabilities. We have engaged Merrill Lynch as financial advisor for the sale of our Life Reinsurance North America Segment. Following the announcement of our change in strategic focus in February 2008 we received a number of inquiries and expressions of interest to acquire our Life Reinsurance North America Segment and concluded that a sale may provide the best method for preserving capital and liquidity and maximizing shareholder value. Merrill Lynch was engaged to facilitate a process of identifying and evaluating prospective qualified buyers, and as a result of this process we have entered into exclusive negotiations with one party. Our objective is to reach a definitive agreement and to close the sale of our Life Reinsurance North America Segment by December 15, 2008. No assurances can be given that we will be successful in negotiating a sale of our Life Reinsurance North America Segment in a timely manner.

Life Reinsurance International

Prior to 2005, our Life Reinsurance International Segment specialized in niche markets in developed countries and broader life insurance markets in the developing world and focused on the reinsurance of short-term insurance. In 2005, the Life Reinsurance International Segment became involved in the reinsurance of United Kingdom and Ireland protection and annuity business. The U.K. represents 65% of the current Life Reinsurance International Segment in-force premium. We also maintain a branch office in Singapore and a representative office in Japan. Treaties with clients outside of the U.K., Ireland, and Asia are mostly in run-off, including our loss of license business.

Effective January 1, 2007 we retroceded a block of treaties within our Middle Eastern business to Arab Insurance Group ("ARIG"). These treaties were subsequently novated directly to ARIG effective December 31, 2007 and the Life Reinsurance International Segment now only has residual exposure to Middle Eastern risks.

In Asia, our historical target niche market was Japan, which is experiencing the development of small affinity group mutual organizations known as *kyosai*, as a parallel sector to large insurance companies. However, our *kyosai* business reduced significantly in 2006 due to our ratings issues.

We recently entered into a definitive agreement with Pacific Life Insurance Company for the sale of our Life Reinsurance International Segment, at a sale price of \$71.2 million, subject to certain downward adjustments. The agreement includes the sale of Scottish Re Limited, Scottish Re Holdings Limited, and all Life Reinsurance International Segment business written by Scottish Annuity & Life Insurance Company (Cayman) Ltd. ("SALIC"), together with certain business retroceded within our Company, and the staff and physical assets that we have in Singapore and Japan. On July 18, 2008, Pacific Life Insurance Company concluded the purchase of Scottish Re Holdings Limited and the U.K. portion of the Life Reinsurance International Segment. The purchase of the Asia portion of the Life Reinsurance International Segment was completed on August 20, 2008. See Note 17 "Discontinued Operations" for a discussion on the sale of the Life Reinsurance International Segment.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

1. Organization and Business (continued)

Corporate and Other

Income in our Corporate and Other Segment comprises investment income, including realized investment gains or losses, from invested assets not allocated to support reinsurance segment operations and undeployed proceeds from our capital raising efforts.

General corporate expenses consist of unallocated overhead and executive costs and collateral finance facility expense. Additionally, the Corporate and Other Segment includes the results from our Wealth Management business, which we recently entered into a definitive agreement to sell, as described below.

Our Wealth Management business consists of the issuance of variable life insurance policies and variable annuities and similar products to high net worth individuals and families. Premiums, net of expenses, paid by the policyholder with respect to our variable products are placed in a separate account for the benefit of the policyholder. We invest premiums in each separate account with one or more investment managers, some of whom the policyholder may recommend and all of whom are appointed by us in our sole discretion. The policyholder retains the benefits of favorable investment performance, as well as the risk of adverse investment results. Assets held in the separate accounts are not subject to the claims of our general creditors. We do not provide any investment management or advisory services directly to any individual variable life or variable annuity policyholder. Our revenues earned from these policies consist of fee income assessed against the assets in each separate account. Our variable products do not guarantee investment returns. We stopped actively marketing this business in 2005.

On May 30, 2008, we entered into a definitive agreement with Northstar Financial Services Ltd. to sell our Wealth Management business which includes the sale of three legal entities, The Scottish Annuity Company (Cayman) Ltd., Scottish Annuity & Life Insurance Company (Bermuda) Ltd., and Scottish Annuity & Life International Insurance Company (Bermuda) Ltd. The combined sale price for all three entities is \$6.75 million, subject to certain sale price adjustments. On July 11, 2008, the transaction closed for Scottish Annuity & Life Insurance Company (Bermuda) Ltd. and Scottish Annuity & Life International Insurance Company (Bermuda) Ltd. and on August 5, 2008, the transaction closed for The Scottish Annuity Company (Cayman) Ltd.. See Note 17 “Discontinued Operations” for a discussion on the sale of the Wealth Management Business.

2. Basis of presentation

Accounting Principles - Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Certain items in the prior period financial statements have been reclassified to conform to the current period presentation. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results for the interim period are not necessarily indicative of the results to be expected for the full year ending December 31, 2008. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2007 Annual Report on Form 10-K for the year ended December 31, 2007 (“2007 Annual Report”).

Going Concern – These consolidated financial statements have been prepared using accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has incurred a net loss of \$466.0 million and \$1,201.3 million for the three and six months ended June 30, 2008 and has a retained deficit of \$2,245.9 million and shareholders’ deficit of \$876.5 million as of June 30, 2008. As a result of declines in the fair value of our invested assets, which contain a significant concentration of sub-prime and Alt-A residential mortgage-backed securities, we have experienced deteriorating financial performance and a worsening liquidity and collateral position. The continuing deterioration in the market for sub-prime and Alt-A securities through the first half of 2008 has compounded the considerable financial challenges and uncertainties faced by the Company.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

2. Basis of presentation (continued)

In addition to causing significant net realized and unrealized investment losses and reported net losses, these adverse market conditions have impacted the value of underlying collateral used to secure our life reinsurance obligations and statutory reserves for our operating companies. Any reserve credit shortfalls arising from a decline in the value of collateral places increased demand on our available capital and liquidity. The net realized and unrealized investment losses and associated decline in our consolidated shareholders' equity has also resulted in our failure to meet minimum net worth covenants for the HSBC II and Clearwater Re collateral finance facilities. We have recently executed forbearance agreements with the counterparties under these facilities who have agreed to forbear taking action until December 15, 2008 in return for certain economic and non-economic terms.

Although we recently unwound and replaced the Clearwater Re collateral finance facility, thereby ending the related forbearance agreement, the terms of the remaining forbearance agreement with HSBC has placed additional constraints on our available capital and liquidity. Our liquidity is insufficient to fund our needs beyond the short term and, without additional sources of capital or the successful completion of the actions noted below, is currently projected to be exhausted by the first quarter of 2009.

The Company has changed its strategic focus and initiated a number of actions to preserve capital and mitigate growing liquidity demands. We have ceased writing new reinsurance treaties and notified existing clients that we will not be accepting new risks on existing treaties. We have also taken steps to reduce our operating expenses including reducing staffing levels. We are also actively pursuing the sale of our Life Reinsurance North America Segment and have completed the sale of our Life Reinsurance International Segment and Wealth Management business. We also continue to pursue the restructuring of certain of our collateral financing facilities and potential alternatives to these facilities to alleviate the collateral requirements of our reinsurance operating subsidiaries. No assurance can be given that we will successfully execute our revised strategic plan, find alternatives to the facilities, or achieve additional forbearance from the relevant counterparties.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully complete the actions described in the preceding paragraph in a timely manner to address our capital, liquidity and collateral needs. These consolidated financial statements do not give effect to any adjustments to recorded amounts and their classification, which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities and commitments in other than the normal course of business and at amounts different from those reflected in the consolidated financial statements.

Consolidation - The consolidated financial statements include the assets, liabilities and results of operations of SRGL and its subsidiaries and all variable interest entities for which we are the primary beneficiary as defined in Financial Accounting Standards Board ("FASB") Interpretation No. 46R "Consolidation of Variable Interest Entities-An Interpretation of ARB No. 51 ("FIN 46R)". All significant inter-company transactions and balances have been eliminated on consolidation.

Estimates, Risks and Uncertainties - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates and assumptions used by management. Our most significant assumptions are for:

- investment valuation and impairments;
- accounting for derivative instruments;
- assessment of risk transfer for structured insurance and reinsurance contracts;
- estimates of premiums;
- valuation of present value of in-force business;
- establishment of reserves for future policy benefits;
- capitalization and amortization of deferred acquisition costs;

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

2. Basis of presentation (continued)

- retrocession arrangements and amounts recoverable from reinsurers;
- interest sensitive contract liabilities;
- deferred taxes and determination of the valuation allowance;
- taxation; and
- stock based compensation.

We review and revise these estimates as appropriate. Any adjustments made to these estimates are reflected in the period the estimates are revised.

All tabular amounts are reported in thousands of United States dollars, except share and per share data, or as otherwise noted.

3. New Accounting Pronouncements

FASB Statement No. 157, Fair Value Measurements

As of January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157 (“SFAS No. 157”) “Fair Value Measurements”. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of SFAS No. 157 did not have a material impact on our consolidated financial statements. In January 2008, the Financial Accounting Standards Board (“FASB”) also issued proposed FSAB Staff Position FAS 157-c (“FSP FAS 157-c”) that would amend SFAS No. 157 to clarify the principles on fair value measurement of liabilities. Management is monitoring the status of this proposed FSP for any impact on our consolidated financial statements. See Note 5 “Fair Value Measurements” for additional disclosures about fair value measurement.

FASB Statement No. 160, Noncontrolling Interest in Consolidated Financial Statements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 (“SFAS No. 160”) “Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51”. SFAS No. 160 establishes accounting and reporting standards that require that ownership interests in subsidiaries held by parties other than the parent be presented in the consolidated statement of shareholders’ equity separately from the parent’s equity; the consolidated net income attributable to the parent and noncontrolling interest be presented on the face of the consolidated statements of operations; changes in a parent’s ownership interest while the parent retains controlling financial interest in its subsidiary be accounted for consistently; and sufficient disclosure that identifies and distinguishes between the interests of the parent and noncontrolling owners. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Presentation and disclosure requirements related to noncontrolling interests must be retrospectively applied. The Company is currently evaluating the impact of SFAS No. 160 on its consolidated financial statements.

FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (“SFAS No. 161”) “Disclosures About Derivative Instruments and Hedging Activities”. SFAS No. 161 establishes reporting standards that require enhanced disclosures about how and why derivative instruments are used, how derivative instruments are accounted for under FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments affect an entity’s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The Company is currently evaluating the impact of SFAS No. 161 on its consolidated financial statements.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

4. Investments

In response to significant market developments that have materially affected our capital, liquidity and collateral position, we have changed our strategic focus and effected a fundamental change in the nature of our business. The Company is now working towards the disposition of each of its life reinsurance segments and other businesses, including the underlying assets and long-term reinsurance liabilities and policyholder obligations related to those businesses. As a result, on a consolidated GAAP basis, the invested assets and long term liabilities are no longer expected to be held until maturity or settlement. Therefore, effective January 1, 2008, our invested assets are classified as trading and the balances in fixed maturity investments - available-for-sale and preferred stock - available for sale were transferred to trading securities. Additionally, as of January 1, 2008, the balance of unrealized appreciation on investments of \$38.5 million, which was previously included in accumulated other comprehensive income (loss), was reclassified and recorded in the consolidated statement of operations caption "Net realized and unrealized losses".

Trading investments are recorded at fair market value. Unrealized holding gains and losses on trading investments are included in earnings. Interest is recorded based upon the stated coupon rate as a component of net investment income. For securities with uncertain cash flow, the investments are accounted for under the cost recovery method, whereby all principal and coupon payments received are applied as a reduction of the carrying value. Cash flows for trading securities are classified in Investing Activities on the consolidated statement of cash flows based on the nature and purpose for which the related securities were acquired.

The portion of net unrealized losses for the three and six months ended June 30, 2008 that relates to trading securities still held at the reporting date is \$323.5 million and \$988.1 million, respectively.

5. Fair Value Measurements

The Company adopted SFAS No. 157 as of January 1, 2008. SFAS No. 157 establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are described below:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – Model derived valuations in which one or more significant inputs or significant value drivers are unobservable

As required by SFAS No. 157, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 and 2) and unobservable (Level 3).

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as stocks and actively traded mutual fund investments.

Level 2 includes those financial instruments that are valued by independent pricing services or valued using models or other valuation methodologies.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

5. Fair Value Measurements (continued)

These models are primarily industry-standard models that consider various inputs, such as interest rate, credit spread and foreign exchange rates for the underlying financial instruments. All significant inputs are observable, or derived from observable, information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed maturity and equity securities; government or agency securities; certain mortgage and asset-backed securities; securities held as collateral; and segregated assets.

Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker prices or internally developed models or methodologies utilizing significant inputs not based on, or corroborated by, readily available market information. This category primarily consists of certain less liquid fixed maturity and equity securities where we cannot corroborate the significant valuation inputs with market observable data. Additionally, the Company's embedded derivatives, all of which are associated with reinsurance treaties, are classified in Level 3 since their values include significant unobservable inputs associated with actuarial assumptions regarding policyholder behavior. Embedded derivatives are reported with the host instruments in the consolidated balance sheet.

At each reporting period, all assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability, such as the relative impact on the fair value as a result of including a particular input.

The vast majority of our fixed maturity and equity securities use Level 2 inputs for the determination of fair value. These fair values are obtained primarily from independent pricing services, when available, utilizing Level 2 inputs. Where pricing services do not provide fair values, the pricing services utilize proprietary pricing models to produce estimates of fair value primarily utilizing Level 2 inputs along with certain Level 3 inputs. The proprietary pricing models include matrix pricing where we discount expected cash flows utilizing market interest rates obtained from third-party sources based on the credit quality and duration of the instrument to determine fair value. For securities that may not be reliably priced using internally developed pricing models, broker quotes are obtained. These broker quotes represent an exit price but the assumptions used to establish the fair value may not be observable and represent Level 3 inputs.

The embedded derivatives in funds withheld at interest include the embedded derivatives resulting from assumed modified coinsurance ("modco") or coinsurance funds withheld reinsurance arrangements. These values are based upon the difference between the fair value of the underlying assets backing the modco or funds withheld receivable and the fair value of the underlying liabilities. The fair value of the assets is generally based upon observable market data using valuation methods similar to those used for assets held directly by the Company. The fair value of the liabilities is determined by using market observable swap rates as well as some unobservable inputs such as actuarial assumptions regarding policyholder behavior. These assumptions require significant management judgment.

The embedded derivatives in equity indexed liabilities include the embedded derivatives resulting from the bifurcation of assumed equity indexed annuity liabilities.

The fair value is determined by using the Income Approach as characterized by SFAS No. 157. This method estimates the value of future equity purchases using certain actuarial assumptions and margins. The actuarial assumptions include factors that are generally not observable such as policyholder behavior, explicit risk margins related to non-capital market inputs, and future interest margins. These assumptions require significant management judgment.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

5. Fair Value Measurements (continued)

The following table sets forth our assets and liabilities that are measured at fair value on a recurring basis as of the date indicated:

	June 30, 2008			
(U.S. dollars in millions)	Total	Level 1	Level 2	Level 3
Investments				
Fixed maturity investments	\$ 6,069.1	\$ -	\$ 4,716.8	\$ 1,352.3
Preferred stock.....	86.3	-	86.3	-
Assets held for sale.....	551.0	-	551.0	-
Total assets at fair value	<u>\$ 6,706.4</u>	<u>\$ -</u>	<u>\$ 5,354.1</u>	<u>\$ 1,352.3</u>
Funds withheld at interest – embedded derivatives.....	(49.7)	-	-	(49.7)
Interest sensitive contract liabilities – embedded derivatives	(83.9)	-	-	(83.9)
Total liabilities at fair value.....	<u>\$ (133.6)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (133.6)</u>

The following table presents additional information about assets measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value:

**Fair Value Measurements Using Significant Unobservable Inputs
(Level 3)**

(U.S. dollars in millions)	Fixed Maturities	Funds Withheld at Interest – Embedded Derivatives	Interest Sensitive Contract Liabilities – Embedded Derivatives	Total
Beginning balance at January 1, 2008	\$ 2,295.1	\$ (38.5)	\$ (93.0)	\$ 2,163.6
Total realized and unrealized gains (losses) included in net loss	(874.6)	(11.2)	9.1	(876.7)
Purchases, issuances and settlements	(55.7)	-	-	(55.7)
Transfers in and/ or out of Level 3	(12.5)	-	-	(12.5)
Ending balance at June 30, 2008	<u>\$ 1,352.3</u>	<u>\$ (49.7)</u>	<u>\$ (83.9)</u>	<u>\$ 1,218.7</u>

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

6. Other Funding Arrangements

Stingray Drawdown

On January 12, 2005, we entered into a put agreement with Stingray Investor Trust (“Stingray”) for an aggregate value of \$325.0 million. Under the terms of the put agreement, we acquired an irrevocable put option to issue funding agreements to Stingray in return for the assets in a portfolio of 30 day commercial paper. This put option may be exercised at any time. In addition, we may be required to issue funding agreements to Stingray under certain circumstances, including, but not limited to, the non-payment of the put option premium and a non-payment of interest under any outstanding funding agreements under the put agreement. The facility matures on January 12, 2015. This transaction may also provide collateral for Scottish Re (U.S.), Inc. (“SRUS”) for reinsurance obligations under inter-company reinsurance agreements.

In accordance with FIN 46R, we are not considered to be the primary beneficiary and as a result, we are not required to consolidate Stingray. We are not responsible for any losses incurred by the Stingray Pass Through Trust. Any funds drawn down on the facility are included in interest sensitive contract liabilities on our balance sheet.

On March 11, 2008, the \$50.0 million used to provide collateral for SRUS was no longer needed for that purpose and was returned to the Stingray facility. As a result, on March 11, 2008, \$325.0 million of the facility was un-utilized. On March 12, 2008, a \$275.0 million funding agreement was put to the facility. On April 14, 2008, an additional funding agreement of \$50.0 million was put to the facility thus fully utilizing the facility. Currently, there is no availability in the Stingray facility.

7. Mezzanine Equity

Convertible Cumulative Participating Preferred Shares

On May 7, 2007, we completed the equity investment transaction by MassMutual Capital Partners LLC (“MassMutual Capital”), a member of the MassMutual Financial Group, and SRGL Acquisition, LDC, an affiliate of Cerberus Capital Management, L.P. (“Cerberus”), announced by us on November 27, 2006 (the “2007 New Capital Transaction”). Pursuant to the 2007 New Capital Transaction, MassMutual Capital and Cerberus each invested \$300.0 million in us in exchange for 500,000 (1,000,000 in the aggregate) newly issued Convertible Cumulative Participating Preferred Shares. The gross proceeds were \$600.0 million less \$44.1 million in closing costs, which resulted in aggregate net proceeds of \$555.9 million. Each Convertible Cumulative Participating Preferred Share has a par value of \$0.01 per share with a liquidation preference of \$600 per share, as adjusted for dividends or distributions as described further below.

As of June 30, 2008, MassMutual Capital and Cerberus hold in the aggregate approximately 68.7% of our equity voting power, along with the right to designate two-thirds of the members of the Board of Directors.

The Convertible Cumulative Participating Preferred Shares are convertible at the option of the holder, at any time, into an aggregate of 150,000,000 ordinary shares of SRGL. On the ninth anniversary of issue, the Convertible Cumulative Participating Preferred Shares will automatically convert into an aggregate of 150,000,000 ordinary shares if not previously converted. We are not required at any time to redeem the Convertible Cumulative Participating Preferred Shares for cash, except in the event of a liquidation or a change-in-control event.

We have accounted for the Convertible Cumulative Participating Preferred Shares in accordance with EITF D-98: “Classification and Measurement of Redeemable Securities”. Dividends on the Convertible Cumulative Participating Preferred Shares are cumulative and accrete daily on a non-compounding basis at a rate of 7.25% per annum on the stated value of \$600.0 million. Dividends will only be paid in a liquidation preference scenario upon liquidation or change-in-control of the Company prior to the ninth anniversary. There have been no dividends accrued in the period as this scenario is not deemed probable at this time.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

7. Mezzanine Equity (continued)

As of June 30, 2008, the amount of dividends not accrued pursuant to the terms of the Convertible Cumulative Participating Preferred Shares is \$50.0 million.

To the extent that the Convertible Cumulative Participating Preferred Shares participate on an as-converted basis in dividends paid on ordinary shares, a corresponding reduction will be made to the liquidation preference for the Convertible Cumulative Participating Preferred Shares. The Convertible Cumulative Participating Preferred Shares have a liquidation preference equal to their stated value, as adjusted for (x) the accretion of dividends and (y) any cash payment or payment in property of dividends or distributions. The holders of Convertible Cumulative Participating Preferred Shares may, among other things, require us to redeem the Convertible Cumulative Participating Preferred Shares upon a change-in-control.

Upon a change-in-control, the redemption price is an amount equal to the greater of (i) the stated value of the outstanding Convertible Cumulative Participating Preferred Shares, plus an amount equal to the sum of all accrued dividends through the earlier of (A) the date of payment of the consideration payable upon a change-in-control, or (B) the fifth anniversary of the issue date of the Convertible Cumulative Participating Preferred Shares, or (ii) the amount that the holder of the Convertible Cumulative Participating Preferred Shares would have been entitled to receive with respect to such change-in-control if it had exercised its right to convert all or such portion of its Convertible Cumulative Participating Preferred Shares for ordinary shares immediately prior to the date of such change-in-control.

The liquidation preference of the Convertible Cumulative Participating Preferred Shares is not applicable once the Convertible Cumulative Participating Preferred Shares have been converted into ordinary shares, as described above.

The Convertible Cumulative Participating Preferred Shares rank, with respect to payment of dividends and distribution of assets upon voluntary or involuntary liquidation, dissolution or winding-up (a "Liquidation Event"): (a) senior to our ordinary shares and to each other class or series of our shares established by the board of directors, the terms of which do not expressly provide that such class or series ranks senior to or *pari passu* with the Convertible Cumulative Participating Preferred Shares as to payment of dividends and distribution of assets upon a Liquidation Event; (b) *pari passu* with each class or series of our shares, the terms of which expressly provide that such class or series ranks *pari passu* with the Convertible Cumulative Participating Preferred Shares as to payment of dividends and distribution of assets upon a Liquidation Event; and (c) junior to each other class or series of our securities outstanding as of the date of the completion of the 2007 New Capital Transaction that ranks senior to our ordinary shares, and to each class or series of our shares, the terms of which expressly provide that such class or series ranks senior to the Convertible Cumulative Participating Preferred Shares as to payment of dividends and distribution of assets upon a Liquidation Event and all classes of our preferred shares outstanding as of the completion of the 2007 New Capital Transaction.

Pursuant to our Securities Purchase Agreement, dated November 26, 2006 ("the "Agreement") with MassMutual Capital and Cerberus, certain representations and warranties were provided relating to our statutory accounting records. As discussed in Note 11 "Commitments and Contingencies" certain statutory accounting errors were discovered in the prior year which has resulted in an indemnification claim against the Company. Resolution of this claim could result in a change in the conversion formula on these securities.

8. Income Taxes

Income tax benefit for the three months ended June 30, 2008 was \$2.5 million and income tax expense for the six months ended June 30, 2008 was \$5.1 million compared to income tax benefit of \$154.3 million and \$140.9 million in the same periods in 2007.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

8. Income Taxes (continued)

The change in our effective tax rate in the second quarter ended June 30, 2008 compared to the same period in 2007 is primarily related to a release of our valuation allowance which was established in previous periods on deferred tax assets for certain operating entities, as well as an increase in the valuation allowance related to other operating entities for which no current period benefit is being recognized.

At December 31, 2007 we had a valuation allowance of \$272.6 million established against our deferred tax assets. We currently provide a valuation allowance against deferred tax assets when it is more likely than not that some portion, or all, of our deferred tax assets, will not be realized. Our valuation allowance increased by approximately \$297.3 million during the six months ended June 30, 2008 to \$569.9 million primarily due to the losses generated in the U.S. and Irish entities for which no current period benefit is being recognized.

At December 31, 2007 we had total unrecognized tax benefits (excluding interest and penalties) of \$187.2 million, the recognition of which would result in a \$17.2 million benefit to the effective tax rate. At June 30, 2008 we had total unrecognized tax benefits (excluding interest and penalties) of \$189.8 million, the recognition of which would result in a \$19.8 million benefit to the effective tax rate. In September 2008, the statute of limitations expired for the 2004 U.S. federal income tax year, which will result in a reduction of our liability for income taxes in the amount of \$22.0 million and a corresponding reduction in our income tax expense in the third quarter of 2008.

The Company's gross deferred tax asset is principally supported by the reversal of deferred tax liabilities. We have maintained a full valuation allowance against any remaining deferred tax asset in the U.S., U.K., Ireland and Singapore, given our inability to rely on future taxable income tax projections.

We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. As of June 30, 2008, we remained subject to examination in the following major tax jurisdictions for the years indicated below:

<u>Major Tax Jurisdictions</u>	<u>Open Years</u>
U.S.	
Life Group	2001 through 2007
Non-Life Group	2005 through 2007
Ireland	2003 through 2007
U.K.	2001 through 2007

9. Earnings per Ordinary Share

The following table sets forth the computation of basic and diluted earnings per ordinary share under the two-class method and the if converted method, respectively, as required under SFAS No. 128 and EITF No. 03-06, "Participating Securities and the Two-Class Method under FASB Statement No. 128".

Basic earnings per share is computed based on the weighted average number of ordinary shares outstanding and assumes an allocation of net income to Convertible Cumulative Participating Preferred Shares for the period or portion of the period that this security is outstanding. We determined that in accordance with EITF 98-5, the non-cash beneficial conversion feature recorded on issue of the Convertible Cumulative Participating Preferred Shares amounting to \$120.8 million is to be treated as a deemed dividend and deducted from the net loss attributable to ordinary shareholders for the purposes of calculating earnings per share. Under the provisions of SFAS No. 128, basic earnings per share are computed by dividing the net loss attributable to ordinary shareholders by the weighted average number of shares of our ordinary shares outstanding for the period.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

9. Earnings per Ordinary Share (continued)

Diluted earnings per share is calculated based on the weighted average number of shares of ordinary shares outstanding plus the diluted effect of potential ordinary shares in accordance with the if converted method.

Basic earnings per share is computed based on the weighted average number of ordinary shares outstanding and assumes an allocation of net income to Convertible Cumulative Participating Preferred Shares for the period or portion of the period that this security is outstanding. Losses are not allocated to Convertible Cumulative Participating Preferred Shares. Under the provisions of SFAS No. 128, basic earnings per share are computed by dividing the net loss attributable to ordinary shareholders by the weighted average number of shares of our ordinary shares outstanding for the period. Diluted earnings per share is calculated based on the weighted average number of shares of ordinary shares outstanding plus the diluted effect of potential ordinary shares in accordance with the if converted method. In accordance with SFAS No. 128, the exercise of options and warrants or conversion of convertible securities is not assumed unless it would reduce earnings per share or increase loss per share.

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Numerator:				
Net (loss) income.....	\$ (465,970)	\$ 102,690	\$ (1,201,260)	\$ 69,478
Dividend declared on non-cumulative perpetual preferred shares	-	(2,265)	(2,266)	(4,531)
Dividend deemed or beneficial conversion feature	-	(120,750)	-	(120,750)
Net loss attributable to ordinary shareholders	<u>\$ (465,970)</u>	<u>\$ (20,325)</u>	<u>\$ (1,203,526)</u>	<u>\$ (55,803)</u>
Denominator:				
Denominator for basic and diluted loss per ordinary share - weighted average number of ordinary shares.....	68,383,370	68,195,614	68,383,370	66,204,855
Effect of dilutive securities*	-	-	-	-
Denominator for dilutive loss per ordinary share	<u>68,383,370</u>	<u>68,195,614</u>	<u>68,383,370</u>	<u>66,204,855</u>
Basic loss per ordinary share.....	<u>\$ (6.81)</u>	<u>\$ (0.30)</u>	<u>\$ (17.60)</u>	<u>\$ (0.84)</u>
Diluted loss per ordinary share	<u>\$ (6.81)</u>	<u>\$ (0.30)</u>	<u>\$ (17.60)</u>	<u>\$ (0.84)</u>

* In accordance with SFAS No. 128, exercise of options and warrants or conversion of convertible securities is not assumed if the result would be anti-dilutive, such as when a loss from continuing operations is reported. As a result, if there is a loss from continuing operations, diluted EPS is computed in the same manner as basic EPS. Due to the anti-dilutive effect on EPS, the following securities could potentially dilute EPS in the future:

- Convertible cumulative participating preferred shares – 150,000,000 ordinary shares
- Stock options – 8,347,820 ordinary shares
- Warrants – 2,650,000 ordinary shares

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

10. Business Segments

We measure segment performance primarily based on income or loss before income taxes and minority interest. Our reportable segments are strategic business units that are primarily segregated by geographic region. We report segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". Our segments included in our continuing operations are Life Reinsurance North America and Corporate and Other. See Note 17 "Discontinued Operations" for a discussion on the sale of the Life Reinsurance International Segment, and the Wealth Management Business which is included in the Corporate and Other Segment.

The segment reporting is as follows:

Three months ended June 30, 2008

	Life Reinsurance		Corporate and Other	Total
	North America	International		
(U.S. dollars in thousands)				
Premiums earned, net	\$ 414,627	\$ 55,107	\$ -	\$ 469,734
Fee and other income.....	3,758	(106)	639	4,291
Investment income, net.....	102,271	2,634	958	105,863
Net realized and unrealized gains (losses).....	(328,507)	(3,917)	12,167	(320,257)
Change in value of embedded derivatives, net	9,366	-	-	9,366
Total revenues	<u>201,515</u>	<u>53,718</u>	<u>13,764</u>	<u>268,997</u>
Claims and other policy benefits	409,440	48,302	-	457,742
Interest credited to interest sensitive contract liabilities	21,569	-	-	21,569
Acquisition costs and other insurance expenses, net...	80,219	49,240	6,284	135,743
Operating expenses.....	14,849	5,405	23,322	43,576
Collateral finance facilities expense	76,068	-	534	76,602
Interest expense	2,177	28	-	2,205
Total benefits and expenses	<u>604,322</u>	<u>102,975</u>	<u>30,140</u>	<u>737,437</u>
Loss before income taxes and minority interest	<u>\$ (402,807)</u>	<u>\$ (49,257)</u>	<u>\$ (16,376)</u>	<u>\$ (468,440)</u>

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

10. Business Segments (continued)

Three months ended June 30, 2007

	Life Reinsurance			
	North America	International	Corporate and Other	Total
(U.S. dollars in thousands)				
Premiums earned, net	\$ 430,282	\$ 16,014	\$ -	\$ 446,296
Fee and other income.....	2,711	753	770	4,234
Investment income, net.....	153,449	3,037	4,393	160,879
Net realized gains (losses).....	(2,593)	983	(445)	(2,055)
Change in value of embedded derivatives net	(1,063)	-	-	(1,063)
Total revenues	<u>582,786</u>	<u>20,787</u>	<u>4,718</u>	<u>608,291</u>
Claims and other policy benefits	371,272	12,614	-	383,886
Interest credited to interest sensitive contract liabilities	36,420	-	-	36,420
Acquisition costs and other insurance expenses, net ...	89,657	5,237	1,607	96,501
Operating expenses.....	13,161	11,455	35,186	59,802
Collateral finance facilities expense	69,085	-	6,200	75,285
Interest expense	3,233	-	4,801	8,034
Total benefits and expenses	<u>582,828</u>	<u>29,306</u>	<u>47,794</u>	<u>659,928</u>
Loss before income taxes and minority interest	<u>\$ (42)</u>	<u>\$ (8,519)</u>	<u>\$ (43,076)</u>	<u>\$ (51,637)</u>

Six months ended June 30, 2008

	Life Reinsurance			
	North America	International	Corporate and Other	Total
(U.S. dollars in thousands)				
Premiums earned, net	\$ 812,830	\$ 84,790	\$ -	\$ 897,620
Fee and other income.....	6,399	(65)	1,375	7,709
Investment income, net.....	205,294	6,508	2,073	213,875
Net realized and unrealized gains (losses).....	(990,228)	(2,399)	11,059	(981,568)
Change in value of embedded derivatives, net	(2,141)	-	-	(2,141)
Total revenues	<u>32,154</u>	<u>88,834</u>	<u>14,507</u>	<u>135,495</u>
Claims and other policy benefits	753,118	71,933	-	825,051
Interest credited to interest sensitive contract liabilities	42,626	-	-	42,626
Acquisition costs and other insurance expenses, net ...	169,410	54,970	8,124	232,504
Operating expenses.....	30,980	10,730	47,188	88,898
Collateral finance facilities expense	136,015	-	1,614	137,629
Interest expense	5,060	18	-	5,078
Total benefits and expenses	<u>1,137,209</u>	<u>137,651</u>	<u>56,926</u>	<u>1,331,786</u>
Loss before income taxes and minority interest	<u>\$ (1,105,055)</u>	<u>\$ (48,817)</u>	<u>\$ (42,419)</u>	<u>\$ (1,196,291)</u>

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

10. Business Segments (continued)

Six months ended June 30, 2007

(U.S. dollars in thousands)	Life Reinsurance			
	North America	International	Corporate and Other	Total
Premiums earned, net	\$ 853,653	\$ 50,857	\$ -	\$ 904,510
Fee and other income.....	6,627	753	1,484	8,864
Investment income, net.....	291,368	6,080	5,028	302,476
Net realized losses	(4,998)	(447)	(899)	(6,344)
Change in value of embedded derivatives net	954	-	-	954
Total revenues	<u>1,147,604</u>	<u>57,243</u>	<u>5,613</u>	<u>1,210,460</u>
Claims and other policy benefits	725,631	38,263	-	763,894
Interest credited to interest sensitive contract liabilities	71,722	-	-	71,722
Acquisition costs and other insurance expenses, net ...	176,880	11,158	3,570	191,608
Operating expenses.....	25,419	21,267	47,696	94,382
Collateral finance facilities expense	137,941	-	11,039	148,980
Interest expense	6,288	-	5,322	11,610
Total benefits and expenses	<u>1,143,881</u>	<u>70,688</u>	<u>67,627</u>	<u>1,282,196</u>
Income (loss) before income taxes and minority interest	<u>\$ 3,723</u>	<u>\$ (13,445)</u>	<u>\$ (62,014)</u>	<u>\$ (71,736)</u>

Capital expenditures of each reporting segment were not material in the periods noted.

Revenues from transactions with a single external customer did not amount to 10% or more of our revenues.

(U.S. dollars in thousands)	June 30, 2008	December 31, 2007
Assets		
Life Reinsurance		
North America	\$ 10,615,227	\$ 11,540,151
International.....	411,527	439,719
Total Life Reinsurance	<u>11,026,754</u>	<u>11,979,870</u>
Corporate and Other	736,282	841,193
Total.....	<u>\$ 11,763,036</u>	<u>\$ 12,821,063</u>

11. Commitments and Contingencies

Class Action and Shareholder Derivative Lawsuits

On August 2, 2006, a putative class action lawsuit was filed against SRGL and certain of its current and former officers and directors in the U.S. District Court for the Southern District of New York on behalf of a putative class consisting of investors who purchased SRGL's publicly traded securities between December 16, 2005 and July 28, 2006. Between August 7, 2006 and October 3, 2006, seven additional related class action lawsuits were filed against SRGL, certain of its current and former officers and directors, and certain third parties. Two of the complaints were filed on August 7, 2006, and the remaining five complaints were filed on August 14, 2006, August 22, 2006, August 23, 2006, September 15, 2006, and October 3, 2006, respectively.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

11. Commitments and Contingencies (continued)

Each of the class actions filed seeks an unspecified amount of damages, as well as other forms of relief. On October 12, 2006, all of the class actions were consolidated. On December 4, 2006, a consolidated class action complaint was filed.

The complaint names SRGL; Dean E. Miller, its former Chief Financial Officer; Scott E. Willkomm, its former Chief Executive Officer; Elizabeth Murphy, its former Chief Financial Officer; SRGL's former Board members Michael Austin, Bill Caulfeild-Browne, Robert Chmely, Michael French, Lord Norman Lamont, Hazel O'Leary, and Glenn Schafer; and certain third parties, including Goldman Sachs and Bear Stearns in their capacities as underwriters in various securities offerings by SRGL and Ernst & Young LLP in their capacity as independent registered public accounting firm. The complaint is brought on behalf of a putative class consisting of investors who purchased SRGL's securities between February 17, 2005 and July 31, 2006. The complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act, Rule 10b-5, and Sections 11, 12(a) (2), and 15 of the Securities Act. The complaint seeks an unspecified amount of damages, as well as other forms of relief. On March 7, 2007 SRGL filed a motion to dismiss the putative class action lawsuit. On November 2, 2007, the court dismissed the Section 10(b) and Rule 10b-5 claims against Ernst & Young LLP, but gave the plaintiffs leave to amend. The court denied the motions to dismiss brought by the other named defendants. In May, 2008, the parties held an initial mediation at which no settlement was reached. On June 16, 2008, all claims brought in the action against Glenn Schafer were dismissed without prejudice. Also on June 16, 2008, the plaintiffs filed a motion for leave to file an amended complaint. On July 11, 2008, the plaintiffs filed an amended complaint in which they sought to expand the class period, renew Section 10(b) and Rule 10b-5 allegations against Ernst & Young LLP, and assert additional factual allegations. On July 18, 2008, Ernst & Young LLP moved to dismiss the replied Section 10(b) claim against it as well as the proposed expanded class period and, on July 23, 2008, SRGL and the third-party underwriter defendants each filed motions to dismiss that portion of the amended complaint seeking to expand the class period. On July 30, 2008, the parties held a second mediation. On August 1, 2008, SRGL and its former officers and directors named in the complaint reached agreement in principle with the plaintiffs to settle the lawsuit and on September 8, 2008, the court entered an order preliminarily approving the proposed settlement. In connection with the proposed settlement, which remains subject to, among other things, notice to the putative class and final approval by the court, SRGL has agreed to contribute \$31.0 million on or before October 8, 2008, with \$25.25 million of this amount to be paid by SRGL's insurance carriers. As of June 30, 2008, SRGL has accrued \$6.5 million in respect of the foregoing proposed settlement contribution and related expenses.

In addition, on or about October 20, 2006, a shareholder derivative lawsuit was filed against certain of SRGL's current and former directors in the U.S. District Court for the Southern District of New York. The derivative lawsuit alleged, among other things, that defendants improperly permitted SRGL to make false and misleading statements to investors concerning SRGL's business and operations, thereby exposing SRGL to liability from class action suits alleging violations of the U.S. securities laws. The derivative lawsuit asserted claims against the defendants for breach of fiduciary duty, abuse of control, gross mismanagement, constructive fraud, and unjust enrichment. On January 8, 2007, SRGL filed a motion to dismiss the derivative lawsuit. On May 7, 2007, the motion was granted and the lawsuit was dismissed without prejudice. The plaintiff declined to submit an amended complaint and, on May 30, 2007, the court dismissed the case with prejudice.

Indemnification

In connection with an examination of the statutory accounting books of certain of our operating insurance subsidiaries, and specifically, the purchase accounting entries made in connection with the 2004 acquisition of the ING business, we determined that certain intercompany receivables and intercompany claims were not reflected in the statutory financial statements of SRUS and Scottish Re (Dublin) Limited ("SRD") in accordance with applicable statutory accounting practices. Management has determined that as a result of these errors the statutory surplus for SRD was overstated on a cumulative basis at year end 2004, 2005 and 2006, resulting in a restated statutory surplus at year end 2006 of approximately \$285.0 million after giving effect to these corrections.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

11. Commitments and Contingencies (continued)

In addition, management has determined that the statutory surplus for SRUS was understated on a cumulative basis at year end 2005 and 2006, resulting in a restated statutory surplus at year end 2006 of approximately \$344.0 million after giving effect to these corrections.

The restated statutory surplus of each of SRUS and SRD met the applicable minimum statutory surplus requirements at December 31, 2006. None of these corrections impact our historical consolidated financial statements under U.S. GAAP.

Pursuant to the Agreement with Mass Mutual Capital and Cerberus, we made certain representations and warranties regarding the statutory financial statements of each of our insurance subsidiaries, including SRD and SRUS, for the years ended 2003, 2004 and 2005 and, with respect to SRUS but not SRD, the first three quarters of 2006, including that these statements were prepared in conformity with applicable statutory accounting practices and fairly present in accordance with such practices in all material respects the statutory financial condition of the relevant insurance subsidiary at the respective dates. In light of our recent discovery of the corrections described above, we have notified the Investors, as required by the terms of the Agreement, of the overstatement of statutory surplus in SRD at year end 2004 and the understatement of such statutory surplus at year end 2005 resulting in a cumulative overstatement for the two year period at year end 2005 of approximately \$70.0 million on an after-tax basis, and the understatement of statutory surplus in SRUS for the year ended 2005 of approximately \$14.5 million on an after-tax basis. On November 16, 2007, the Investors responded by notifying us of their concern that the corrections described above may constitute breaches of certain of the representations and warranties made by us in the Agreement. Under the Agreement, in the event of a claim for losses resulting from a diminution in value, such losses would be determined by an independent investment banking firm of national reputation, agreed upon by us and the Investors, based on changes in the valuation of SRGL using the assumptions and models used by the Investors at the time of their decision to invest in us. Furthermore, should any claim for indemnification be made by the Investors, the Agreement provides that any decision regarding defending or settling such claim will be taken by a committee of independent directors of our Board of Directors. In their November 16, 2007 correspondence, the Investors requested that we convene a committee of independent directors. We and the Investors are still in discussions regarding the process for addressing any claim they might have. At this time, we do not know what the amount of any indemnifiable losses would be, if any, or what potential defenses or other limitations on indemnification may be available to the Company under those circumstances. The Agreement provides that any indemnification claim would be satisfied by adjusting the conversion amount at which the Convertible Cumulative Participating Preferred Shares issued to the Investors are convertible into our Ordinary Shares.

12. Forbearance Agreements with Counterparties

On May 30, 2008, we received notice from the counterparties to our Clearwater Re Limited ("Clearwater Re") collateral finance facility that Clearwater Re was in breach of certain covenants to deliver financial statements in a timely manner. We were required to cure such breach within 30 days of notice or an event of default would have occurred in Clearwater Re. In addition, due to a decline in our consolidated shareholders' equity upon the filing of our Form 10-K for the year ended December 31, 2007, we were in breach of minimum net worth covenants in Clearwater Re and another of our collateral finance facilities, HSBC II. These facilities involved an aggregate of \$0.9 billion of financing at June 30, 2008, of which \$0.9 billion was borrowed and recorded in Collateral Finance Facilities, and have full recourse to SALIC. As a result, if we were unable to successfully negotiate a solution with the relevant counterparties, both the Clearwater Re and HSBC II facilities could have defaulted with full recourse to SALIC and in the care of Clearwater Re, also with full recourse to SRGL. However, on June 30, 2008, we executed forbearance agreements with the relevant counterparties to the Clearwater Re and HSBC II facilities whereby the relevant counterparties agreed to forbear taking action until December 15, 2008. In order to achieve forbearance, we agreed to certain economic and non-economic terms which have led to constraints on our available liquidity.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

12. Forbearance Agreements with Counterparties (continued)

The economic terms were in the form of (1) additional collateral posted to the respective facilities, (2) restrictions on additional usage of the facility, and (3) additional fees payable to each bank (\$1 million if notes/facilities are redeemed in full before August 1, \$2 million if notes/facilities are redeemed in full before August 31, \$6 million if notes/facilities are redeemed in full or not redeemed in full and Life Reinsurance North America Segment is sold after August 31).

We agreed to contribute additional capital to Clearwater Re's surplus account, including (i) \$22 million which was contributed on July 1, 2008, (ii) \$6 million which was contributed on August 13, 2008, (iii) additional future contributions based on our liquidity position, (iv) specified percentages of any sales proceeds received on the disposition of our non-core assets or lines of business, and (v) any collateral released in the event of an unwinding or replacement of the HSBC II facility. We also agreed that the counterparties would have no further obligation to fund any future advances under the facility. On August 29, 2008, we completed a full recapture, effective as of July 1, 2008, of the business ceded from SRUS to Clearwater Re and immediately retroceded the recaptured business, also effective as of July 1, 2008, from SRUS to an unaffiliated third party reinsurer. In connection with the recapture transaction, the counterparties to the Clearwater Re collateral finance facility were repaid in full together with a payment of a \$4 million fee to the bank-counterparties and the facility, and the related forbearance agreement and its terms, were terminated. Consequently, we wrote off the remaining unamortized balance of \$10.3 million of deferred finance costs at June 30, 2008 associated with the facility.

In connection with the HSBC II forbearance agreement, we agreed to post, and did post additional collateral to HSBC of \$22 million on July 1, 2008 and \$6 million on August 13, 2008. We also agreed to post additional collateral to HSBC over time if our liquidity position reaches certain specified thresholds. In addition, we agreed to apply specified percentages of any sales proceeds received on the disposition of specific blocks of business to the reinsurance trust account related to the facility or as additional collateral to HSBC. SRGL agreed to guaranty the obligations of SALIC under the HSBC facility. In connection with the August 29, 2008 termination of the Clearwater Re collateral finance facility, we posted additional collateral to HSBC of \$22.5 million (which amount is comprised of 50% of the additional capital previously contributed to Clearwater Re's surplus account in connection with the Clearwater Re forbearance agreement and 50% of the proceeds we received in connection with the replacement of the Clearwater Re collateral finance facility).

Under the forbearance agreement, HSBC's obligation to provide additional funding during the forbearance period has been capped and future funding to the facility would terminate upon the occurrence of certain events, including events of default under the transaction documents, and failure to enter into definitive agreements with respect to the sale of our Life Reinsurance North America Segment. We estimate our 2008 fourth quarter funding needs for this defined block of business to be approximately \$7 million.

In respect of the HSBC II facility, the forbearance period will remain in effect, subject to certain conditions being met, until December 15, 2008. Pursuant to the terms of the amended and restated forbearance agreement, HSBC has agreed during the forbearance period to forbear from accelerating the transaction or demanding additional collateral under the transaction documents. The forbearance period is subject to early termination upon the occurrence of certain events not specifically covered by the amended and restated forbearance agreement, including events of default under the underlying transaction documents, failure to maintain specified liquidity requirements, failure to achieve certain milestones with respect to the progress of our revised business strategy (including the sale of our Life Reinsurance North America Segment), defaults under other agreements and borrowing facilities, and the breach of certain restrictive covenants relating to, among other things, dividends and capital contributions.

In addition, HSBC required certain amendments to the transaction documents relating to, among others, an increase in the interest spread payable to HSBC, timing of recapture of the related insurance business, certain amendments to the investment guidelines, and additional reporting requirements.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

12. Forbearance Agreements with Counterparties (continued)

The forbearance agreement provides time to execute our revised strategic plan and seek out, if necessary, alternative collateral support for the HSBC II facility.

To the extent we are unsuccessful, by December 15, 2008, in either closing the sale of our Life Reinsurance North America Segment, finding alternative collateral support for the HSBC II facility, or raising additional capital, we will be in default of the HSBC II forbearance agreement and will need to obtain additional forbearance from HSBC or consider seeking bankruptcy protection.

No assurances can be given that we will succeed in selling our Life Reinsurance North America Segment by December 15, 2008, finding alternative collateral support for the facility, raising additional capital or obtaining additional forbearance from HSBC.

13. Recapture and Assignment Transactions

On March 31, 2008, SRGL, SRUS, Scottish Re Life (Bermuda) Limited (“SRLB”), SRD and SALIC entered into a binding letter of intent (the “LOI”) with ING North America Insurance Corporation, ING America Insurance Holdings, Inc., Security Life of Denver Insurance Company (“SLD”) and Security Life of Denver International Limited (“SLDI” and, together with SLD “ING”). Under the LOI, SLD consented to the recapture, in one or more transactions (the “First Quarter Recapture”), of a pro-rata portion of the business that had been ceded by SRUS to Ballantyne Re (all such recaptured business pursuant to the First Quarter Recapture and subsequent recaptures, collectively, the “Recaptured Business”) for the purpose of collateralizing the statutory reserve requirements of the Valuation of Life Insurance Policies Model Regulation XXX for a portion of the business acquired by the Company from SLD and SLDI at the end of 2004 (such portion related to the Ballantyne Re transaction, the “Ballantyne Business”). The Recaptures are primarily designed to allow SRUS to continue to receive full credit for reinsurance for the business ceded to Ballantyne Re.

On May 6, 2008, we completed this transaction and recaptured approximately 30% of the Ballantyne Business, effective as of March 31, 2008. This business was in turn recaptured by ING and ultimately ceded to SRD, utilizing almost the entire amount of the \$375.0 million of letters of credit made available by ING. As part of the LOI, we, along with ING, Ballantyne Re and the financial guarantors of certain of the debt securities issued by Ballantyne Re agreed to enter into a novation and assignment of SRUS’s reinsurance agreement with Ballantyne Re to ING, with the aim of permanently relieving SRUS from its requirement to hold reserves with respect to the business ceded to Ballantyne Re.

In addition to providing for the Recaptures, if certain conditions related to the LOI are not satisfied by December 31, 2008, the LOC Fee will be stepped up and we will pay a \$10 million commitment fee for use of the facility.

On June 30, 2008, we entered into a binding letter of intent with ING (the “June 30 LOI”) and we entered into a separate binding letter of intent with Ballantyne Re, ING, Ambac Assurance UK Limited and Assured Guaranty (UK) Ltd. (the “Assignment Letter of Intent”). The June 30 LOI and the Assignment Letter of Intent relate to the business that SRUS ceded to Ballantyne Re for the purpose of collateralizing the statutory reserve requirements of the Valuation of Life Insurance Policies Model Regulation XXX for the Ballantyne Business.

Pursuant to the June 30 LOI, SLD consented to the recapture by SRUS of a pro-rata portion of the Ballantyne Business effective as of June 30, 2008 (the “Second Quarter Recapture”). On August 11, 2008, we effectuated the Second Quarter Recapture of approximately 15.5% of the Ballantyne Business and utilized almost the entire amount of the \$200.0 million of letters of credit made available by ING pursuant to the June 30 LOI.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

13. Recapture and Assignment Transactions (continued)

Immediately following the consummation of the Recapture and the Second Quarter Recapture, SLD recaptured the Recaptured Business from SRUS in exchange for consideration from SRUS to SLD described below. SLD then ceded the Recaptured Business to SLDI, which ceded the Recaptured Business to SRLB.

SLDI has agreed to provide, or cause the provision of, one or more LOCs in order to provide SLD with statutory financial statement credit for the excess of the U.S. statutory reserves associated with all such Recaptured Business over the economic reserves held in an account related thereto. As consideration, we will bear the costs of the LOC by paying to SLD a facility fee based on the face amount of such LOCs outstanding as of the end of the preceding calendar quarter.

Pursuant to the Assignment Letter of Intent, the parties have agreed to assign and novate to SLD the reinsurance agreement and trust agreement between SRUS and Ballantyne Re (the "Assignment") as follows: (a) SLD and SRUS would terminate the portion of their existing reinsurance agreement that covers the Ballantyne Business, (b) SRUS and Ballantyne Re would terminate their existing reinsurance agreement (pursuant to which SRUS retroceded to Ballantyne Re the Ballantyne Business) (the "Pre-Assignment Reinsurance Agreement") and would terminate the related reinsurance trust agreement between those parties, and (c) SLD and Ballantyne Re would enter into a new reinsurance agreement (the "Post-Assignment Reinsurance Agreement"), pursuant to which SLD would cede directly to Ballantyne Re the Ballantyne Business, and a new reinsurance trust agreement, pursuant to which SLD would become the sole beneficiary of the reinsurance trust account maintained by Ballantyne Re.

SRUS will remain obligated to administer the Ballantyne Business following the consummation of the Assignment consistent with its obligation to administer the business acquired from ING at the end of 2004, of which the Ballantyne Business is a part.

The Assignment also will involve amendments to certain of the agreements underlying the Ballantyne Re securitization transaction, including matters relating to services provided to Ballantyne Re and the delivery of financial and other information. We also have agreed that if SLD recaptures business from Ballantyne Re following the Assignment in order to continue to receive full credit for reinsurance, SLDI is entitled to cede the recaptured business to us, in which case we will bear the costs of the LOCs obtained to support that business as described above. In addition, we also have agreed to obtain SLD's consent before appointing any future director to the board of directors of Ballantyne Re and to not appoint as a director any person currently or formerly affiliated with Scottish Re.

The Assignment will not relieve SRUS of liability for breaches of its representations, warranties, covenants or other obligations that relate to periods before the effective date of the Assignment, and the Company and SRUS will remain responsible for certain ongoing covenants made for the benefit of Ballantyne Re, Ambac and Assured. In addition, SRUS has agreed to indemnify and hold harmless SLD and its affiliates for losses and damages incurred arising from the exercise by Ballantyne Re of any right, or from any limitation on the ability of SLD to exercise any right or recover any amount, under the Post-Assignment Reinsurance Agreement as a result of (a) any breach of any representation, warranty or covenant of SRUS under the Pre-Assignment Reinsurance Agreement or any related transaction document, (b) any action or omission by any director, officer, employee, agent, representative, appointee, successor, or permitted assign of SRUS or any of its affiliates that causes a Tax Event (as defined in the Pre-Assignment Reinsurance Agreement) for Ballantyne Re or otherwise causes Ballantyne Re to be in breach of any representation, warranty or covenant under the Pre-Assignment Reinsurance Agreement or any related transaction document or (c) any arbitration award against SRUS that SLD pays on its behalf to avoid termination of the Post-Assignment Reinsurance Agreement.

The Assignment will be effective as of July 1, 2008. The parties to the Assignment Letter of Intent have agreed to use their reasonable best efforts to close the Assignment by September 30, 2008, otherwise any party is entitled to terminate the Assignment Letter of Intent and not consummate the Assignment.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

13. Recapture and Assignment Transactions (continued)

The closing of the transactions contemplated by the Assignment Letter Agreement is subject to receipt of required regulatory approvals, completion of transaction documentation reasonably acceptable to the respective parties and customary closing conditions. No assurances can be given that we will be successful in closing these transactions.

14. Changes to Collateral Finance Facilities

With respect to another of our securitization structures, Orkney Re II, in May 2008 we executed amendments to certain transaction documents to give us flexibility in dealing with additional near term estimated fair value declines in the sub-prime and Alt-A securities held by Orkney Re II. The amendments eliminate certain priority of payment limitations and provide us with the ability to recapture business from Orkney Re II.

To the extent that we continue to experience estimated fair value declines in the sub-prime and Alt-A assets, we may need to recapture a pro-rata portion of the underlying business in Orkney Re II and find alternative collateral support for the recaptured business. No assurances can be given that we will be successful in securing alternative collateral support.

As mentioned above, on June 30, 2008, we executed a forbearance agreement with HSBC in respect of the HSBC II facility pursuant to which HSBC has agreed to forbear taking action until December 15, 2008. In order to achieve forbearance, we agreed to both economic and non-economic terms which have led to additional constraints on our available liquidity and collateral facilities. The economic terms were in the form of (1) additional collateral posted to the facility and (2) restrictions on additional usage of the facility. As a result, additional funding for the HSBC II facility ceases on December 15, 2008 and we estimate our funding needs for this defined block of business to be approximately \$7 million in the fourth quarter of 2008.

15. Dividends on Perpetual Preferred Shares

On April 14, 2008, we announced that pursuant to the Certificate of Designations for our non-cumulative perpetual preferred shares (the "Perpetual Preferred Shares") we may be precluded from declaring and paying dividends on the October 15, 2008 dividend payment date because we may not meet certain financial tests under the terms of the perpetual preferred shares required for us to pay such dividends. In addition, we also announced that, given our current financial condition, our Board of Directors in its discretion had decided not to declare a dividend for the April 15, 2008 dividend payment date. Furthermore, on July 3, 2008, the Board determined that in light of our financial condition and in accordance with the terms of our forbearance agreements with the relevant counterparties to the HSBC II and (the then outstanding) Clearwater Re collateral finance facilities, the Company would suspend the cash dividend for the July 15, 2008 payment date.

16. NYSE Delisting and Securities and Exchange Commission Deregistration

Our ordinary and perpetual preferred shares were delisted from the New York Stock Exchange as of April 7, 2008, and, therefore, we have no further reporting obligations under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We also had fewer than 300 holders of our securities as of January 1, 2008 and, as a result, our reporting obligations under Sections 13 and 15(d) of the Exchange Act, were suspended. On May 13, 2008, we filed a Form 15 indicating the suspension of our reporting obligations. On July 11, 2008, we filed a Form 10-K for the year ended December 31, 2007 which fulfilled our remaining obligation with the Securities Exchange Commission.

Our ordinary shares and perpetual preferred shares are no longer registered under Section 12(b) of the Exchange Act, as amended. As a result, notwithstanding the occurrence of material developments (either positive or negative), we are not required to, nor do we intend to, make future public filings or issue press releases as we have in the past. These developments may have an adverse impact on the market liquidity in our ordinary and perpetual preferred shares and other securities.

SCOTTISH RE GROUP LIMITED

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June 30, 2008

17. Discontinued Operations

Disposal of Wealth Management Business

On May 30, 2008, we entered into a definitive agreement with Northstar Financial Services Ltd. to sell our Wealth Management business which includes the sale of three legal entities, The Scottish Annuity Company (Cayman) Ltd., Scottish Annuity & Life Insurance Company (Bermuda) Ltd., and Scottish Annuity & Life International Insurance Company (Bermuda) Ltd. The combined sale price for all three entities is \$6.75 million, subject to certain sale price adjustments. On July 11, 2008, the transaction closed for Scottish Annuity & Life Insurance Company (Bermuda) Ltd. and Scottish Annuity & Life International Insurance Company (Bermuda) Ltd. and on August 5, 2008, the transaction closed for The Scottish Annuity Company (Cayman) Ltd.

The main assets and liabilities in our Wealth Management business are represented by segregated assets and segregated liabilities totaling \$551.0 million as at June 30, 2008, respectively. These balances are reflected on the consolidated balance sheet as Assets Held for Sale and Liabilities Held for Sale.

We have incurred an estimated loss of approximately \$4.5 million on the sale of our Wealth Management business which has been reflected in "Acquisition costs and other insurance expenses, net" in the consolidated statement of operations. The disposition of the Wealth Management business is not considered material to our consolidated financial statements during the quarter ended June 30, 2008. This sale transaction will be disclosed as a discontinued operation under SFAS No. 144 during the quarter ended September 30, 2008 in conjunction with the disclosures related to the discontinued operation of the Life Reinsurance International Segment as noted below.

Disposal of Life Reinsurance International Segment

The agreement to sell the Life Reinsurance International Segment is with Pacific Life Insurance Company and was entered into on June 9, 2008 for sale price of \$71.2 million, subject to certain potential downward adjustments. The agreement includes the sale of Scottish Re Limited, Scottish Re Holdings Limited, and all Life Reinsurance International Segment business written by SALIC, together with certain business retroceded within our Company, and the staff and physical assets that we have in Singapore and Japan. On July 18, 2008, Pacific Life Insurance Company concluded the purchase of Scottish Re Holdings Limited and the U.K. portion of the Life Reinsurance International Segment for a closing consideration of \$67.1 million after closing adjustments of \$4.1 million. The purchase of the Asia portion of the Life Reinsurance International Segment was completed on August 20, 2008 for an additional closing consideration of \$0.5 million.

As at June 30, 2008, the assets to be disposed of in respect of the Life Reinsurance International Segment total \$406.5 million (of a total of \$411.5 million for the Segment) along with liabilities totaling \$272.1 million. The dispositions of the Life Reinsurance International Segment have not been treated in the current period as discontinued operations as they are not considered post balance sheet adjusting events. However we recorded an impairment charge in the three months ended June 30, 2008 of \$40.0 million reflecting the non-recoverability of deferred acquisition costs which is reflected in Acquisition costs and Other Insurance Expenses, Net in the consolidated statement of operations. We currently anticipate incurring a loss of approximately \$6.0 million on the sale of our Life Reinsurance International Segment, which includes costs associated with closing the transaction.

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2008

17. Discontinued Operations (continued)

Pro forma Income Statement

The following tables show pro forma income statements for the three and six months ended June 30, 2008 that gives effect to discontinued operations presentation related to the Life Reinsurance International Segment and Wealth Management business:

(U.S. dollars in thousands)	Three Months Ended June 30, 2008		
	Actual	Pro forma Adjustments	Pro forma
	Total revenues.....	\$ 268,997	\$ (54,770)
Total benefits and expenses	737,437	(103,629)	633,808
Loss before income taxes and minority interest.....	\$ (468,440)	\$ (48,859)	\$ (419,581)

(U.S. dollars in thousands)	Six Months Ended June 30, 2008		
	Actual	Pro forma Adjustments	Pro forma
	Total revenues.....	\$ 135,495	\$ (90,322)
Total benefits and expenses	1,331,786	(138,975)	1,192,811
Loss before income taxes and minority interest.....	\$ (1,196,291)	\$ (48,653)	\$ (1,147,638)

The pro forma adjustments have been derived from the consolidated financial statements and accounting records of the Company using historical results of operations of the Wealth Management business and Life Reinsurance International Segment. No amounts of general corporate expenses have been allocated to discontinued operations in the pro forma adjustments.

18. Subsequent Events

Decline in Fair Values of Invested Assets

The U.S. residential housing market and the market for sub-prime and Alt-A residential mortgage-backed securities have continued to deteriorate through the third quarter of 2008. As at August 31, 2008, additional market value declines of approximately \$200.0 million will be recognized in our consolidated statement of operations as a component of net realized and unrealized losses for the quarter ended September 30, 2008. In addition, the adverse market conditions impact the value of the underlying collateral used to secure our life reinsurance obligations and statutory reserves. A large portion of the net realized and unrealized losses are primarily held in two of our three securitization structures, Ballantyne Re plc and Orkney Re II plc. Although these securitization structures are without recourse to us, they are consolidated in our financial statements under U.S. GAAP and changes in the fair value of investments can adversely impact our reported financial results and the statutory reserve credit that SRUS is able to recognize for these transactions.