CONSOLIDATED FINANCIAL STATEMENTS

Scottish Annuity & Life Insurance Company (Cayman) Ltd.

Years ended December 31, 2009 and 2008
with Report of Independent Auditors

Scottish Annuity & Life Insurance Company (Cayman) Ltd.
Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

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Report of Independent Auditors

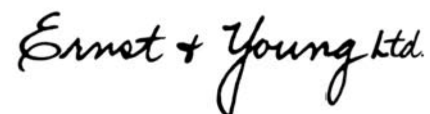
The Board of Directors
Scottish Annuity & Life Insurance Company (Cayman) Ltd.

We have audited the accompanying consolidated balance sheets of Scottish Annuity & Life Insurance Company (Cayman) Ltd. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of comprehensive income (loss), shareholder's equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scottish Annuity & Life Insurance Company (Cayman) Ltd. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Scottish Annuity & Life Insurance Company (Cayman) Ltd. will continue as a going concern. As more fully described in Note 2, the Company's primary operating subsidiary is operating its business under an Amended Order of Supervision with the Delaware Department of Insurance. This condition raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The 2009 consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.



June 1, 2010

A member firm of Ernst & Young Global Limited

Scottish Annuity & Life Insurance Company (Cayman) Ltd.
Consolidated Balance Sheets
(Expressed in Thousands of United States Dollars, except share data)

	December 31	
	2009	**2008**
Assets		
Fixed maturity investments, trading at fair value	$ 2,988,164	$ 3,534,510
Preferred stock, trading at fair value	77,410	79,767
Cash and cash equivalents	348,539	726,843
Other investments	21,482	22,772
Funds withheld at interest	608,500	1,748,768
Total investments	4,044,095	6,112,660
Accrued interest receivable	24,422	33,970
Reinsurance balances receivable	152,120	346,322
Due from related party	24,543	-
Deferred acquisition costs	253,045	329,653
Amount recoverable from reinsurers	724,297	822,920
Present value of in-force business	38,316	40,105
Other assets	57,348	29,373
Current income tax receivable	12,762	8,811
Deferred tax asset	3,922	3,922
Total assets	$ 5,334,870	$ 7,727,736
Liabilities		
Reserves for future policy benefits	$ 1,542,639	$ 4,011,053
Interest-sensitive contract liabilities	1,518,365	2,025,554
Collateral finance facilities	850,000	2,550,500
Accounts payable and other liabilities	51,001	99,223
Embedded derivatives at fair value	54,934	347,519
Reinsurance balances payable	136,517	246,860
Funds withheld from reinsurer	303,104	-
Due to related party	1,121	72,305
Deferred tax liability	50,143	221
Long term debt at fair value	55,068	-
Long term debt	129,500	129,500
Total liabilities	4,692,392	9,482,735
Equity		
Ordinary shares, par value $0.01:		
Issued 20,000,000 shares	20,000	20,000
Additional paid-in capital	1,585,896	1,509,286
Retained deficit	(971,086)	(3,291,251)
Total Scottish Annuity & Life Insurance Company (Cayman) Ltd. shareholder's equity (deficit)	634,810	(1,761,965)
Noncontrolling interest	7,668	6,966
Total equity (deficit)	642,478	(1,754,999)
Total liabilities and total equity	$ 5,334,870	$ 7,727,736

See Accompanying Notes to Consolidated Financial Statements

Scottish Annuity & Life Insurance Company (Cayman) Ltd.
Consolidated Statements of Income (Loss)
(Expressed in Thousands of United States Dollars)

	Year Ended December 31	
	2009	**2008**
Revenues		
Premiums earned, net	$ 400,893	$ 1,596,817
Fee and other income	6,948	8,803
Investment income, net	169,171	348,175
Net realized and unrealized losses	275,648	(1,695,049)
Gain on de-consolidation of collateral finance facility	1,150,614	-
Gain on consolidation of funding arrangement	253,824	-
Change in value of long term debt at fair value	(22,125)	-
Gain on extinguishment of debt	53,545	19,437
Change in value of embedded derivatives, net	292,585	(216,041)
Total revenues	2,581,103	62,142
Benefits and expenses		
Claims and other policy benefits	(47,649)	1,536,532
Interest credited to interest-sensitive contract liabilities	59,959	75,581
Acquisition costs and other insurance expenses, net	122,840	549,181
Operating expenses	41,931	124,012
Collateral finance facilities expense	27,818	236,889
Interest expense	6,274	9,902
Total benefits and expenses	211,173	2,532,097
Income (loss) from continuing operations before income taxes	2,369,930	(2,469,955)
Income tax (expense) benefit	(49,063)	10,137
Income (loss) from continuing operations	2,320,867	(2,459,818)
Income from discontinued operations, net of taxes	-	17,828
Income (loss) before noncontrolling interest	2,320,867	(2,441,990)
Net (income) loss attributable to noncontrolling interest	(702)	1,855
Net income (loss)	$ 2,320,165	$ (2,440,135)

See Accompanying Notes to Consolidated Financial Statements

Scottish Annuity & Life Insurance Company (Cayman) Ltd.
Consolidated Statements of Comprehensive Income (Loss)
(Expressed in Thousands of United States Dollars)

	Year Ended December 31	
	2009	**2008**
Net income (loss)	$ 2,320,165	$ (2,440,135)
Other comprehensive (loss) income, net of tax:		
Unrealized depreciation on investments	-	-
Reclassification adjustment for net realized and unrealized (gains) losses included in net loss	-	(23,832)
Net unrealized (depreciation) appreciation on investments, net of income taxes and deferred acquisition costs of $nil and $11,663	-	(23,832)
Cumulative translation adjustment	-	(119)
Other comprehensive (loss) income	-	(23,951)
Net income (loss) before noncontrolling interest	$ 2,320,165	$ (2,464,086)
Change in net unrealized appreciation (depreciation) attributable to the noncontrolling interest		204
Comprehensive income (loss)	$ 2,320,165	$ (2,463,882)

See Accompanying Notes to Consolidated Financial Statements

Scottish Annuity & Life Insurance Company (Cayman) Ltd.
Consolidated Statements of Shareholder's Equity (Deficit)
(Expressed in Thousands of United States Dollars)

	Year Ended December 31	
	2009	**2008**
Share capital		
Ordinary shares:		
Beginning and end of year	$ 20,000	$ 20,000
Additional paid-in capital:		
Beginning of year	1,509,286	1,509,286
Capital contributed by parent	76,610	-
End of year	1,585,896	1,509,286
Accumulated other comprehensive income		
Unrealized appreciation (depreciation) on investments net of income taxes and deferred acquisition costs:		
Beginning of year	-	23,832
Change in period	-	(23,832)
End of year	-	-
Noncontrolling interest:		
Beginning of year	-	(204)
Change in period (net of tax)	-	204
End of year	-	-
Cumulative translation adjustment:		
Beginning of year	-	119
Change in period (net of tax)	-	(119)
End of year	-	-
Total accumulated other comprehensive income	-	-
Retained deficit:		
Beginning of year	(3,291,251)	(851,116)
Net loss	2,320,165	(2,440,135)
End of year	(971,086)	(3,291,251)
Total Scottish Annuity & Life Insurance Company (Cayman) Ltd. shareholder's equity (deficit)	$ 634,810	$ (1,761,965)
Noncontrolling interest:		
Beginning of year	6,966	9,025
Net income (loss)	702	(1,855)
Unrealized depreciation – change in period (net of tax)	-	(204)
End of year	7,668	6,966
Total shareholder's equity (deficit)	$ 642,478	$ (1,754,999)

See Accompanying Notes to Consolidated Financial Statements

Scottish Annuity & Life Insurance Company (Cayman) Ltd.
Consolidated Statements of Cash Flows
(Expressed in Thousands of United States Dollars)

	Year Ended December 31	
	2009	**2008**
Operating activities		
Net income (loss)	$ 2,320,165	$ (2,440,135)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Net realized and unrealized (gains) losses	(275,648)	1,645,220
Gain on de-consolidation of collateral finance facility	(1,150,614)	–
Gain on consolidation of funding arrangement	(253,824)	–
Change in value of long term debt at fair value	22,125	–
Gain on extinguishment of debt	(53,545)	(19,437)
Changes in value of embedded derivatives, net	(292,585)	216,041
Amortization of discount on fixed maturity investments and preferred stock	–	320
Amortization of deferred acquisition costs	77,803	195,065
Amortization and write down of present value of in-force business	1,789	1,754
Write-off of fixed assets	6,021	–
Amortization of deferred transaction costs	1,998	48,228
Depreciation of fixed assets	831	6,945
Net income (loss) attributable to noncontrolling interest	702	(1,855)
Changes in assets and liabilities:		
Accrued interest receivable	3,162	18,781
Reinsurance balances and risk fees receivable	140,904	195,340
Deferred acquisition costs	(1,906)	38,117
Deferred tax asset and liability	49,921	9,871
Other assets	(244,391)	75,288
Current income tax receivable and payable	(3,951)	2,258
Reserves for future policy benefits, net of amounts recoverable from reinsurers.	(2,127,856)	(112,427)
Funds withheld at interest	1,140,268	(151,364)
Interest-sensitive contract liabilities	(9,276)	(41,504)
Collateral finance facilities	500	–
Due to (from) related party	(95,727)	20,270
Accounts payable and other liabilities	(303,735)	188,594
Embedded derivatives at fair value	292,585	(216,041)
Funds withheld from reinsurer	303,104	–
Net cash used in operating activities	(451,180)	(320,671)
Investing activities		
Purchase of fixed maturity investments	(726,458)	(297,876)
Proceeds from sales of fixed maturity investments	440,343	1,518,343
Proceeds from maturity and return of capital of fixed maturity investments	389,194	539,411
Purchase of preferred stock	(80)	(2,285)
Proceeds from sale and maturity of preferred stock	12,438	3,167
Purchase of and proceeds from other investments, net	299	36,395
Proceeds from sale (purchase) of fixed assets	989	(1,168)
Net cash provided by (used in) investing activities	116,725	1,795,987
Financing activities		
Deposits to interest-sensitive contract liabilities	–	(166)
Withdrawals from interest-sensitive contract liabilities	(73,845)	(837,934)
Payments on collateral finance facilities	–	(960,942)
Proceeds from (repayment on) drawdown of funding arrangement	–	325,000

Extinguishment of debt	(46,614)	–
Capital contributed from parent	76,610	–
Net cash (used in) provided by financing activities	(43,849)	(1,474,042)
Net change in cash and cash equivalents	(378,304)	1,274
Cash and cash equivalents, beginning of year	726,843	725,569
Cash and cash equivalents, end of year	$ 348,539	$ 726,843

Interest paid	$ 381	$ 28,030
Taxes paid	$ (3,397)	$ (4,815)

See Accompanying Notes to Consolidated Financial Statements

Scottish Annuity & Life Insurance Company (Cayman) Ltd.

Notes To Consolidated Financial Statements

December 31, 2009

1. Organization and Business

Organization

Scottish Annuity & Life Insurance Company (Cayman) Ltd. (the "Company", "we", "our" and "SALIC") was incorporated as an exempted company with limited liability on June 3, 1998 under the laws of the Cayman Islands. We are a wholly owned subsidiary of Scottish Re Group Limited ("SRGL" and, together with its subsidiaries (including SALIC) as applicable, "Scottish Re") a holding company organized under the laws of the Cayman Islands with its principal executive office in Bermuda. On July 8, 1998, we received an unrestricted Class "B" insurer's license under the insurance laws of the Cayman Islands. During 2002, we obtained an insurance permit to operate in Bermuda.

We are a reinsurer of life insurance, annuities and annuity-type products. These products are written by life insurance companies and other financial institutions located principally in the United States, as well as around the world. We refer to this portion of our business as Life Reinsurance. We have operating companies in Bermuda, Cayman Islands, Ireland and the United States.

Run-off Strategy

In 2008, we ceased writing new business and notified our existing clients that we would not be accepting any new reinsurance risks under existing reinsurance treaties, thereby placing our remaining treaties into run-off. We expect to continue to pursue our run-off strategy for the remaining business, whereby we continue to receive premiums, pay claims and perform key activities under our remaining reinsurance treaties. Through prudent management of investments and reinsurance cash flows and operating expenses, our goal is to continue to satisfy our reinsurance and other obligations and to maintain a risk based capital ratio above the company action level prescribed by Delaware law and above any risk based capital-based recapture thresholds in our reinsurance agreements with ceding companies. No assurances can be given that we will be successful in implementing this strategy.

While pursuing our runoff strategy, we may from time to time, if opportunities arise, purchase in privately negotiated transactions, open market purchases or by means of general solicitation or tender offer or otherwise, additional amounts of our outstanding debt, non-voting preferred securities, and other liabilities. Any such purchases will depend on a variety of factors including but not limited to available corporate liquidity, capital requirements and indicative pricing levels. The amounts involved in any such transactions, individually or in the aggregate, may be material. For further discussion on our outstanding securities, see Note 12, "Debt Obligations and Other Funding Arrangements" and Note 21, "Subsequent Events".

Regulatory Considerations

We currently operate with certain regulatory considerations in respect of Scottish Re (U.S.), Inc. ("SRUS"), our primary U.S. reinsurance subsidiary. In connection with SRUS' receipt in late 2008 of a permitted practice related to the reduction from liability for reinsurance ceded to an unauthorized assuming insurer (the "Permitted Practice"), SRUS consented to the issuance by the Delaware Department of Insurance (the "Department") on January 5, 2009, of an Order of Supervision against SRUS (the "Order of Supervision"), in accordance with 18 Del. C. §5942. The Order of Supervision required, among other things, the Department's consent to any transaction by SRUS outside the ordinary course of business and any transaction with or any distribution or payment to its affiliates. The original Order of Supervision subsequently was amended and replaced with an Extended and Amended Order of Supervision, dated April 3, 2009 (the "Amended Order of Supervision"), which amends and clarifies certain matters contained within the original Order of Supervision. See Note 18, "Statutory Requirements and Dividend Restrictions".

1. Organization and Business (Continued)

Business

We have written reinsurance business that is wholly or partially retained in one or more of our reinsurance subsidiaries. With the sale of the Wealth Management business in 2008 and the sale of the Acquired Business in our Life Reinsurance North America Segment in the first quarter of 2009, operating decisions and performance assessment of the Company is now performed without reference to any separate segments. Accordingly, we do not present information about distinct operating segments for periods after January 1, 2009.

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. We suspended bidding for new business on March 3, 2008, and at that time, we began issuing notices cancelling the acceptance of new reinsurance risks for all open reinsurance treaties. The business we historically 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 often is referred to as traditional life reinsurance. We wrote our Traditional Solutions business predominantly on an automatic basis. This means that we automatically reinsured all policies written by a ceding company that met the underwriting criteria specified in the treaty with the ceding company. As discussed herein, Scottish Re completed in 2009 the sale to Hannover Re of the Acquired Business, which business generally was a part of our Traditional Solutions business.

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 of business, closed blocks of business, or lines of business 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 variable 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. 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.

1. Organization and Business (Continued)

As discussed above, however, we have ceased writing new reinsurance treaties and no longer are accepting any new reinsurance risks under existing treaties or contracts with ceding companies.

2. Summary of Significant Accounting Policies

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.

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. Our ability to continue as a going concern is dependent upon our ability to successfully meet our obligations in a manner that addresses ongoing regulatory requirements and capital, liquidity and collateral needs. There can be no assurance that any of the actions we have taken or plan to take as described in Note 1 above will be successful in supplying funds in amounts and at times necessary to meet our liquidity or capital requirements in future periods. These consolidated financial statements do not give effect to any adjustments to recorded amounts and their classification which would be necessary if we were unable to continue as a going concern.

In the event that for any reason, we fail to comply with the Department's Amended Order of Supervision, or in the event the financial condition of SRUS materially was to deteriorate, the Department may take action to seize control of SRUS under applicable insurance law. Such a seizure would place control of all management decisions of SRUS with the Department, including with respect to controlling cash flows, settling claims and paying obligations. The primary objective of the Department would be to protect the interests of the policyholders and ceding insurers with whom SRUS has contracted and would not be to protect the interests of SRGL, SALIC, the shareholders or any other stakeholders of the Company. A seizure of SRUS would have numerous consequences, including potentially triggering ceding company recapture rights on reinsurance agreements with us. Such seizure may also lead to the need for SALIC and SRGL to seek bankruptcy protection.

As previously announced, we changed our strategic focus in the first quarter of 2008 and have been pursuing a number of actions to preserve capital and mitigate growing liquidity demands. See Note 1, "Organization and Business". We ceased writing new reinsurance treaties and notified existing clients that we would not be accepting new risks on existing treaties. We took steps to reduce our operating expenses, including reducing staffing levels. We also completed the sale of our Wealth Management business and Life Reinsurance International Segment in 2008, and the Acquired Business in 2009. Our current strategy is to run-off the remaining business under our existing reinsurance treaties.

Our ability to continue as a going concern is dependent upon our ability to successfully meet our obligations in a manner that addresses ongoing regulatory requirements and capital, liquidity and collateral needs. There can be no assurance that any of these actions will be successful in supplying funds in amounts and at times necessary to meet our liquidity requirements in future periods. These consolidated financial statements do not give effect to any adjustments to recorded amounts and their classification, which would be necessary should we be unable to continue as a going concern and, therefore, be required to realize our assets and discharge our liabilities and commitments in other than the normal course of business and at amounts different from those reflected in the consolidated financial statements.

2. Summary of Significant Accounting Policies (Continued)

Consolidation - The consolidated financial statements include the assets, liabilities and results of operations of SALIC and its subsidiaries and all variable interest entities for which we are the primary beneficiary as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810-10, Consolidation - Overall ("FASB ASC 810-10"). All significant inter-company transactions and balances have been eliminated on consolidation. As at December 31, 2009, we consolidate one non-recourse securitizations: Orkney Re (more fully defined in Note 10, "Collateral Finance Facilities and Securitization Structures-*Orkney Re, Inc.*"). In addition, we have also consolidated the Stingray Pass-Through Trust and the Stingray Investor Trust, effective October 8, 2009. See Note 12, "Debt Obligations and Other Funding Arrangements". Effective January 1, 2009, we no longer consolidated Ballantyne Re plc ("Ballantyne Re"). See Note 10, "Collateral Finance Facilities and Securitization Structures".

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;
- amortization of deferred acquisition costs;
- retrocession arrangements and amounts recoverable from reinsurers;
- interest sensitive contract liabilities;
- long term debt at fair value; and
- income taxes, deferred taxes and determination of the valuation allowance.

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, or as otherwise noted.

Fixed Maturity Investments, Preferred Stock, Other Investments, and Cash and Cash Equivalents

Effective January 1, 2008, we reclassified our available for sale securities to trading. Accordingly, as of January 1, 2008, the balance of unrealized appreciation on investments of $35.5 million, which was previously included in accumulated other comprehensive income (loss), was reclassified and recorded in the Consolidated Statements of Income (Loss) caption "Net realized and unrealized gains (losses)".

We carry securities at fair value on our Consolidated Balance Sheets. We maximize the use of observable inputs and minimize the use of non-observable inputs when measuring fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of fixed maturity investments is calculated using independent pricing sources which utilize brokerage quotes, proprietary models and market based information. The actual value at which such financial instruments actually could be sold or settled with a willing buyer may differ from such estimated fair values. Unrealized holding gains and losses on trading investments are included in earnings. Interest is recorded on the accrual basis 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

2. Summary of Significant Accounting Policies (Continued)

value. Cash flows for trading securities are classified in Investing Activities on the Consolidated Statements of Cash Flows based on the nature and purpose for which the related securities were acquired. Investment transactions are recorded on the trade date with balances pending settlement reflected in the Consolidated Balance Sheets as a component of cash and cash equivalents.

Realized gains and losses arising on the sale of securities are determined on a specific identification method. Realized gains and losses are stated net of associated deferred acquisition costs and income taxes.

Other investments include equity securities and structured loans, which are generally accounted for at fair value. Other investments represented approximately 0.6% and 0.4% of our investments as of December 31, 2009 and 2008, respectively.

Cash and cash equivalents include cash and fixed deposits with an original maturity, when purchased, of three months or less. Cash and cash equivalents are recorded at face value, which approximates fair value.

Statement of Cash Flows

In accordance with FASB ASC Topic 360, Property, Plant and Equipment ("FASB ASC 360"), formerly SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), certain items in the prior years in the Consolidated Statements of Income (Loss) and the assets and liabilities in the Consolidated Balance Sheets have been restated to exclude the results of our discontinued operations, namely the Life Reinsurance International Segment and the Wealth Management business. As permitted by FASB ASC 360, the Consolidated Statements of Comprehensive Income, Shareholders' Deficit and Cash Flows remain unchanged.

We included the change in funds withheld at interest in our modified coinsurance arrangements as change in operating activities in the Consolidated Statements of Cash Flows. The related interest and change in fair value of embedded derivatives is also included in cash flows from operating activities.

Derivatives

All derivative instruments are recognized either as assets or liabilities in the Consolidated Balance Sheets at fair value as required by FASB ASC Topic 815, Derivatives and Hedging ("FASB ASC 815"), formerly SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). The accounting for changes in the fair value of standalone derivatives that have not been designated as a hedge are included in net realized and unrealized losses in the Consolidated Statements of Income (Loss).

Our funds withheld at interest arise on modified coinsurance and funds withheld coinsurance agreements. FASB ASC Section 815-15-55, Derivatives and Hedging – Embedded Derivatives – Implementation Guidelines and Illustrations ("FASB ASC 815-15-55"), which incorporates Derivatives Implementation Group Issue No. B36 "Embedded Derivatives: Bifurcation of a Debt Instrument that Incorporates Both Interest Rate and Credit Rate Risk Exposures that are Unrelated or Only Partially Related to the Creditworthiness of the Issuer of that Instrument", indicates that these transactions contain embedded derivatives. The embedded derivative feature in our funds withheld treaties is similar to a fixed-rate total return swap on the assets held by the ceding companies.

During the year ended December 31, 2008, we reinsured equity-indexed annuity reinsurance contracts, with account values credited with a return indexed to an equity index rather than established interest rates. Under FASB ASC 815-15-55, which now incorporates Derivatives Implementation Group Issue No. B10 "Embedded Derivatives: Equity-Indexed Life Insurance Contracts", these transactions contained embedded derivatives. These contracts were recaptured in 2008, eliminating the associated embedded derivative balance of $81.4 million and resulting in a pre-tax gain of $35.2 million.

2. Summary of Significant Accounting Policies (Continued)

The fair value of these embedded derivatives at December 31, 2009, was a liability of $54.9 million compared to a liability of $347.5 million at December 31, 2008, and is included in embedded derivatives at fair value on the Consolidated Balance Sheets. This represents a reclassification from prior years where these embedded derivatives were included in accounts payable and other liabilities. The reclassification provides better disclosure for our liabilities held at fair value. See Note 5 "Fair Value Measurements". The change in fair value of embedded derivatives is reported in the Consolidated Statements of Income (Loss) under the caption "Change in value of embedded derivatives, net".

Assessment of Risk Transfer for Structured Insurance and Reinsurance Contracts

For both ceded and assumed reinsurance, risk transfer requirements must be met in order to obtain reinsurance status for accounting purposes, principally resulting in the recognition of cash flows under the contract as premiums and losses. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. To assess risk transfer for certain contracts, we generally develop expected discounted cash flow analyses at contract inception. If risk transfer requirements are not met, a contract is accounted for using the deposit method. Deposit accounting requires that consideration received or paid be recorded in the Consolidated Balance Sheets as opposed to premiums written or losses incurred in the Consolidated Statements of Income (Loss) and any non-refundable fees earned based on the terms of the contract.

For each of our reinsurance contracts, the Company must determine if the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. We must review all contractual features, particularly those that may limit the amount of insurance risk to which we are subject or features that delay the timely reimbursement of claims. If we determine that a contract does not expose us to a reasonable possibility of a significant loss from insurance risk, we record the contract on a deposit method of accounting with the net amount payable/receivable reflected in other reinsurance assets or liabilities on the Consolidated Balance Sheets. Fees earned on the contracts are reflected as other revenues, as opposed to premiums, on the Consolidated Statements of Income (Loss).

Revenue Recognition

(i) Reinsurance premiums from traditional life policies and annuity policies with life contingencies generally are recognized as revenue when due from policyholders and reported net of amounts retroceded. Traditional life policies include those contracts with fixed and guaranteed premiums and benefits, and principally consist of whole life and term insurance policies.

(ii) Benefits and expenses, net of amounts retroceded, are matched with net earned premiums so as to result in the recognition of profits over the life of the contracts. This is achieved by means of the provision for liabilities for future policy benefits and deferral and subsequent amortization of deferred acquisition costs.

(iii) Reinsurance assumed for interest-sensitive and investment-type products does not generate premium but generates investment income on the assets we receive from ceding companies less policy charges for the cost of insurance, policy administration, and surrenders that have been assessed against policy account balances during the period.

(iv) Fee income is recorded on an accrual basis.

(v) Net investment income includes interest and dividend income together with amortization of market premium and discounts and is net of investment management and custody fees.

2. Summary of Significant Accounting Policies (Continued)

Present Value of In-Force Business

The present value of in-force business is established upon the acquisition of a book of business and is amortized over the expected life of the business as determined at acquisition. The amortization each year is a function of the ratio of annual gross profits or revenues to total anticipated gross profits or revenues expected over the life of the business, discounted at the assumed net credit rate (4.9% for 2009 and 2008). The carrying value is reviewed for premium deficiency at least annually for indicators of impairment in value.

Reserves for Future Policy Benefits

FASB ASC Topic 944, Financial Services – Insurance ("FASB ASC 944"), formerly SFAS No. 60 "Accounting and Reporting by Insurance Enterprises" ("SFAS No. 60"), applies to our traditional life policies with continuing premiums. For these policies, reserves for future policy benefits are computed based upon expected mortality rates, lapse rates, investment yields, expenses and other assumptions established at policy issue, including a margin for adverse deviation. Once these assumptions are made for a given treaty or group of treaties, they will not be changed over the life of the treaty. We periodically review actual historical experience and relative anticipated experience compared to the assumptions used to establish reserves for future policy benefits. Further, we determine whether actual and anticipated experience indicates that existing policy reserves, together with the present value of future gross premiums are sufficient to cover the present value of future benefits, settlement and maintenance costs and to recover unamortized acquisition costs. Significant changes in experience or assumptions may require us to provide for expected losses on a group of treaties by establishing additional net reserves. Because of the many assumptions and estimates used in establishing reserves and the long-term nature of the reinsurance contracts, the reserving process, while based on actuarial science, is inherently uncertain.

On certain lines of business, policy benefit reserves include an estimate of claims payable for incurred but not reported ("IBNR") losses. Those IBNR loss estimates are determined using some or all of the following: studies of actual claim lag experience, best estimates of expected incurred claims in a period, actual reported claims, and best estimates of IBNR losses as a percentage of current in-force.

Deferred Acquisition Costs

Costs of acquiring new business, which vary with and primarily are related to the production of new business, have been deferred to the extent that such costs are deemed recoverable from future gross profits. Such costs include commissions and allowances as well as certain costs of policy issuance and underwriting. We perform periodic tests to determine that the cost of business acquired remains recoverable, and if financial performance significantly deteriorates to the point where a premium deficiency exists, the cumulative amortization is re-estimated and adjusted by a cumulative charge to current operations.

Deferred acquisition costs ("DAC") related to traditional life insurance contracts, substantially all of which relate to long-duration contracts, are amortized in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the life of the policy. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits. The deferral of acquisition costs are established for limited premium policies under the same practices as used for traditional life policies with the exception that any gross premium in excess of the net premium is deferred and recognized into income as a constant percentage of insurance in-force.

DAC related to interest-sensitive life and investment-type policies are deferred and amortized over the lives of the policies, in relation to the present value of estimated gross profits from mortality and investment income, less interest credited and expense margins without provision for adverse deviation. Each reporting period, we update the estimated gross profits with the actual gross profits for that period. When actual gross profits change from

2. Summary of Significant Accounting Policies (Continued)

previously estimated gross profits, the cumulative DAC amortization is recalculated and adjusted by a cumulative charge or credit to current operations. When actual gross profits exceed those previously estimated, the DAC amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the actual gross profits are below the previously estimated gross profits. In circumstances where calculated gross profits are negative, we record the actual gross profits at zero. This is necessitated by the declining level of asset market values, which now flow through earnings under the trading classification.

In addition, we review the future estimated gross profit for each block of business to determine the recoverability of DAC balances based on future expectations. Changes in the assumptions for mortality, persistency, maintenance expense and interest could result in material changes to the financial statements. When expected future gross profits are below those previously estimated, the DAC amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the expected future gross profits are above the previously estimated future gross profits.

Total DAC amortization during a particular period may increase or decrease depending upon the relative size of the amortization change resulting from the adjustment to DAC for the update of actual gross profits and the re-estimation of expected future gross profits.

Modifications or exchanges of contracts that constitute a substantial contract change are accounted for as an extinguishment of the replaced contract resulting in a release of unamortized deferred acquisition costs, unearned revenue and deferred sales inducements associated with the replaced contract.

The development and amortization of deferred acquisition costs for our products requires management to make estimates and assumptions. Actual results could differ materially from those estimates. Management monitors actual experience, and should circumstances warrant, will revise its assumptions and the related estimates.

Retrocession Arrangements and Amounts Recoverable From Reinsurers

In the ordinary course of business, our reinsurance subsidiaries cede reinsurance to other reinsurance companies. These agreements provide greater diversification of business and minimize the net loss potential arising from large risks. Ceded reinsurance contracts do not relieve us of our obligation to the direct writing companies. The cost of reinsurance related to long duration contracts is recognized over the terms of the reinsured policies on a basis consistent with the reporting of those policies.

In the normal course of business, we seek to limit our exposure to losses on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance enterprises or reinsurers under excess coverage and quota share contracts. In order to manage short term volatility in our earnings and diversify our mortality exposure, we limit our exposure on any given life.

Our initial North American life retention limit was set at $500,000 per life. With the acquisition of ERC Life Reinsurance Corporation in December 2003 (subsequently renamed Scottish Re Life Corporation ("SRLC")), we set retention for that block of business at $1,000,000 per life, effective July 1, 2004. On December 31, 2004, we acquired the former individual life business of ING Re which had managed a retention up to $5,000,000. Effective January 1, 2005, we established a per life retention on the acquired business of $2,000,000, while raising retention for new issues to $1,000,000. This organic new business retention was increased to $2,000,000 per life for 2007. In 2009, the former individual life business of ING Re was purchased by Hannover Re as part of the Acquired Business. See Note 14, "Reinsurance-*Sale of a Block of Life Reinsurance North America Business*".

In May 2006, we entered into an agreement that provided $155 million of collateralized catastrophe protection with Tartan Capital Management, a special purpose Cayman Islands company funded by a catastrophe bond

2. Summary of Significant Accounting Policies (Continued)

transaction, for terrorism, nuclear, biological and chemical risks on our entire retained life reinsurance business. The coverage period ran from January 1, 2006 to December 31, 2008, and provided SALIC with protection from losses arising from higher than normal mortality levels within the United States, as reported by the U.S. Center for Disease Control and Prevention or other designated reporting agency. This coverage was based on a mortality index, which in turn was based on age and gender weighted mortality rates for the United States constructed from publicly available data sources, as defined at inception of the transaction, and which compared the mortality rates over consecutive two year periods to a reference index value. We have not renewed this cover due to the reduced size of our retained business.

Amounts recoverable from reinsurers includes the balances due from reinsurance companies for claims and policy benefits that will be recovered from reinsurers, based on contracts in-force, and are presented net of a reserve for uncollectible reinsurance that has been determined based upon a review of the financial condition of the reinsurers and other factors. The method for determining the reinsurance recoverable involves actuarial estimates as well as a determination of our ability to cede claims and policy benefits under our existing reinsurance contracts. The reserve for uncollectible reinsurance is based on an estimate of the amount of the reinsurance recoverable balance that we will ultimately be unable to recover due to reinsurer insolvency, a contractual dispute or any other reason.

The methods used to determine the reinsurance recoverable balance, and related bad debt provision, continually are reviewed and updated and any resulting adjustments are reflected in earnings in the period identified. At December 31, 2009 and 2008, we had a reserve for uncollectible reinsurance of $5.0 million and $4.5 million, respectively.

Interest-Sensitive Contract Liabilities

The liabilities for interest-sensitive contract liabilities equal the accumulated account values of the policies or contracts as of the valuation date and include funds received plus interest credited less funds withdrawn and interest paid. Benefit liabilities for fixed annuities during the accumulation period equal their account values; after annuitization, they equal the discounted present value of expected future payments.

FASB ASC 944, which incorporates SFAS No. 97 “Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments” (“SFAS No. 97”), applies to investment contracts, limited premium contracts, and universal life-type contracts. For investment and universal life-type contracts, future benefit liabilities are held using the retrospective deposit method, increased for amounts representing unearned revenue or refundable policy charges. Should the liabilities for future policy benefits plus the present value of expected future gross premiums for a product be insufficient to provide for expected future benefits and expenses for that product, deferred acquisition costs will be written off and thereafter, if required, a premium deficiency reserve will be established by a charge to income.

Income Taxes

Income taxes are recorded in accordance with FASB ASC Topic 740, Income Taxes (“FASB ASC 740”), formerly SFAS No. 109, “Accounting for Income Taxes” (“SFAS No. 109”). In accordance with FASB ASC 740, for all years presented we use the asset and liability method to record deferred income taxes. Accordingly, deferred income tax assets and liabilities are recognized that reflect the net tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, using enacted tax rates. Such temporary differences are primarily due to tax basis of reserves, DACs, unrealized investment losses and net operating loss carry forwards. A valuation allowance is applied to deferred tax assets if it is more likely than not that all, or some portion, of the benefits related to the deferred tax assets will not be realized.

2. Summary of Significant Accounting Policies (Continued)

Funds Withheld at Interest

Funds withheld at interest are funds held by ceding companies under modified coinsurance and coinsurance funds withheld agreements whereby we receive the interest income earned on the funds. The balance of funds held represents the statutory reserves of the ceding companies, with the assets supporting these reserves retained by the ceding company and managed for our account. Interest accrues to these assets at rates defined by the treaty terms. These agreements are considered to include embedded derivatives as further discussed in this Note. In addition to our modified coinsurance and funds withheld coinsurance agreements, we have entered into various financial reinsurance treaties that, although considered funds withheld, do not transfer significant insurance risk and are recorded on a deposit method of accounting.

Other Assets

Other assets primarily include unamortized debt issuance costs, interest rate swap derivative, collateral finance facility costs, certain deferred transaction costs, funds on deposit as security for certain collateral finance facilities, and fixed assets.

As of December 31, 2009 and 2008, we had unamortized collateral finance facilities costs and debt issuance costs of approximately $14.0 million and $16.0 million, respectively. During 2009 and 2008, we amortized collateral finance facilities costs and debt issuance costs of $2.0 million and $5.9 million, respectively. Debt issuance costs relating to our long term debt were fully amortized in 2009. In 2008, we wrote off collateral finance facilities costs related to Ballantyne Re ($21.3 million), Clearwater Re (as defined in Note 10, "Collateral Finance Facilities and Securitization Structures-*Clearwater Re*") ($10.3 million), HSBC II (as defined in Note 10, "Collateral Finance Facilities and Securitization Structures-*HSBC II*") ($4.8 million) and our reinsurance facility ($4.6 million). Deferred costs relating to the collateralized catastrophe protection with Tartan were fully amortized in 2008. During 2008, we amortized the remaining $1.4 million of these deferred costs.

Other Liabilities

Other liabilities primarily relate to collateral facility accrued interest, deferred guarantee fees and uncertain income tax liabilities (FASB ASC 740-10, formerly FIN 48).

Funds withheld from reinsurers

Funds withheld from reinsurers are funds held by SALIC from reinsurers under modified coinsurance and coinsurance funds withheld agreements whereby the reinsurer receives the interest income earned on the funds. The interest expense on these agreements is included under caption "Claims and other policy benefits" in the Consolidated Statements of Income (Loss). These agreements are also considered to include embedded derivatives as further discussed in this Note.

Long Term Debt at Fair Value

Long term debt at fair value relates to amounts outstanding on the Pass-Through Certificates. See Note 12, "Debt Obligations and Other Funding Arrangements".

3. New Accounting Pronouncements

FASB ASC Consolidation Section 810-10-65, Consolidation – Overall – Transition and Open Effective Date Information (formerly FASB Statement No. 160, Noncontrolling Interest in Consolidated Financial Statements)

In December 2007, the FASB issued FASB ASC Consolidation Section 810-10-65, Consolidation – Overall – Transition and Open Effective Date Information ("FASB ASC 810-10-65") formerly SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin ("ARB") No. 51"* ("SFAS No. 160"), which aims to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards surrounding noncontrolling interests, or minority interests, which are the portions of equity in a subsidiary not attributable, directly or indirectly, to a parent. The ownership interests in subsidiaries held by parties other than the parent shall be clearly identified, labeled and presented in the Consolidated Statement of Financial Position within equity, but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the noncontrolling interest must be clearly identified and presented on the face of the Consolidated Statements of Income (Loss). Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary must be accounted for consistently as equity transactions. A parent's ownership interest in a subsidiary changes if the parent purchases additional ownership interests in its subsidiary, sells some of its ownership interests in its subsidiary, the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary must be initially measured at fair value. The gain or loss on the de-consolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment. Entities must provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. FASB ASC 810-10-65 was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We included the enhanced disclosures required by FASB ASC 810-10-65 in our consolidated financial statements.

FASB ASC Topic 820, Fair Value Measurements and Disclosures (formerly FASB Statement No. 157, Fair Value Measurements)

As of January 1, 2008, we adopted FASB ASC Topic 820, Fair Value Measurements and Disclosures ("FASB ASC 820"), formerly SFAS No. 157 *"Fair Value Measurements"* ("SFAS No. 157"). This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of FASB ASC 820 did not have a material impact on our consolidated financial statements.

FASB ASC Section 815-10-65, Derivatives and Hedging – Overall – Transition and Open Effective Date Information (formerly FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities)

In March 2008, the FASB issued FASB ASC Section 815-10-65, Derivatives and Hedging – Overall – Transition and Open Effective Date Information ("FASB ASC 815-10-65"), formerly SFAS No. 161 *"Disclosures About Derivative Instruments and Hedging Activities"* ("SFAS No. 161"). FASB ASC 815-10-65 establishes reporting standards that require enhanced disclosures about how and why derivative instruments are used, how derivative instruments are accounted for under FASB ASC Topic 815, Derivatives and Hedging, and how derivative instruments affect an entity's financial condition, financial performance, and cash flows. FASB ASC 815-10-65 was effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The adoption of FASB ASC 815-10-65 did not have a material effect on our consolidated financial statements.

3. New Accounting Pronouncements (continued)

FASB ASC Subtopic 860-40, Transfers and Servicing – Transfers to Qualifying Special Purpose Entities (which incorporate FSP FAS No. 140-4 and FIN 46(R)-8, Enhanced Disclosure Requirements Related to Transfers of Financial Assets and Variable Interest Entities)

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, *"Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities"* ("FSP 140-4"), which are now incorporated in FASB ASC Subtopic 860-40, Transfers and Servicing – Transfers to Qualifying Special Purpose Entities ("FASB ASC 860-40"). FASB ASC 860-40 amends FASB Statement No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140") to require additional disclosures regarding a transferor's continuing involvement with transferred financial assets in a securitization or asset-backed financing arrangement. FASB ASC 860-40 also amends FIN 46 (revised December 2003) "Consolidation of Variable Interest Entities," to expand the disclosure requirements for variable interest entities ("VIEs") to include information regarding the decision to consolidate the VIE, the nature of and changes in risks related to a VIE, and the impact on the entity's financial statements due to the involvement with a VIE. Those variable interests required to comply with the guidance in FASB ASC 860-40 include the primary beneficiary of the VIE, the holder of a significant variable interest and a sponsor that holds a variable interest. Further, FASB ASC 860-40 requires enhanced disclosures for certain sponsors and holders of a significant variable interest in a qualifying special purpose entity. The provisions of FASB ASC 860-40 were effective for the first reporting period ending after December 15, 2008, and comparative disclosures were not required. We included the enhanced disclosures required by FASB ASC 860-40 in the notes to the consolidated financial statements beginning in the reporting period ended December 31, 2008, and there have been no significant changes to disclose in 2009.

See Note 10, "Collateral Finance Facilities and Securitization Structures" for more information regarding our involvement with VIEs.

FASB ASC Section 820-10-65, Fair Value Measurements and Disclosures – Overall – Transition and Open Effective Date Information (formerly FSP FAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly)

In April 2009, the FASB issued FASB ASC Section 820-10-65, Fair Value Measurements and Disclosures – Overall – Transition and Open Effective Date Information ("FASB ASC 820-10-65"), formerly FSP FAS No. 157-4, *"Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly"* ("FSP No. 157-4"). FASB ASC 820-10-65 provides additional guidance for estimating fair value in accordance with SFAS No. 157, emphasizing that even if there has been significant decrease in the volume and level of activity for the asset or liability and regardless of valuation technique(s) used, the objective of a fair value measurement remains the same. FASB ASC 820-10-65 shall be effective for interim and annual reporting periods ending after June 15, 2009 and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009 is not permitted. The adoption of FASB ASC 820-10-65 did not have a material effect on our consolidated financial statements.

FASB ASC Section 825-10-65, Financial Instruments – Overall – Transition and Open Effective Date Information (formerly FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments)

In April 2009, the FASB issued FASB ASC Section 825-10-65, Financial Instruments – Overall – Transition and Open Effective Date Information ("FASB ASC 825-10-65"), formerly FSP FAS No. 107-1 and APB No. 28-1. *"Interim Disclosures about Fair Value of Financial Instruments"* (FSP No. 107-1 and APB No. 28-1"). FASB ASC 825-10-65 was issued to require disclosures about fair value of financial instruments for interim reporting periods of

3. New Accounting Pronouncements (continued)

publicly traded companies as well as in annual financial statements, and for those disclosures at interim reporting periods to be in a format that summarized financial information. FASB ASC 825-10-65 shall be effective for interim reporting periods ending after June 15, 2009, with early adoption permitted ending after March 15, 2009. We included the annual summarized financial information disclosure required by FASB ASC 825-10-65 in Note 6, "Fair Value of Financial Instruments" of the consolidated financial statements.

FASB ASC Topic 855, Subsequent Events (formerly FASB Statement No. 165, Subsequent Events)

In May 2009, the FASB issued FASB ASC Topic 855, Subsequent Events ("FASB ASC 855"), formerly SFAS No. 165, *"Subsequent Events"* ("SFAS No. 165"). This statement is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. FASB ASC 855 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for the date – that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after the date in the set of financial statements being presented. The Company adopted FASB ASC 855 during the second quarter of 2009 and evaluates subsequent events through the date its financial statements are filed. The adoption of this standard did not have an impact on our consolidated financial statements.

FASB ASC Topic 105, Generally Accepted Accounting Principles (formerly FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles-a replacement of FASB Statement No. 162)

In June 2009, the FASB issued FASB ASC Topic 105, Generally Accepted Accounting Principles ("FASB ASC 105"), formerly SFAS No. 168, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles-a replacement of FASB Statement No. 162" ("FASB No. 168").* This statement is a replacement of SFAS No. 162 "*The Hierarchy of Generally Accepted Accounting Principles"* and aims to establish the *FASB ASC* as the source of authoritative accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with U.S. GAAP. FASB ASC 105 is effective for financial statements for interim or annual periods ending on or after September 15, 2009. FASB ASC 105 will have no impact on our consolidated financial statements as it only changes the referencing of financial accounting standards and does not change or alter existing U.S. GAAP.

Accounting Standards Update No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value ("ASU No. 2009-05"). This update provides amendments to FASB ASC Subtopic 820-10, Fair Value Measurement and Disclosures-Overall, for the fair value measurement of liabilities. ASU No. 2009-05 provides clarification in using valuation techniques for measuring fair value of liabilities, estimating the fair value of a liability and also clarifies Level 1 fair value measurements of a liability. ASU No. 2009-05 is effective for the first reporting period (including interim periods) beginning after its August 2009 issuance. The adoption of ASU No. 2009-05 did not have a material impact on our consolidated financial statements.

Accounting Standards Update No. 2009-17, Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

In December 2009, the FASB issued Accounting Standards Update No. 2009-17, Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities ("ASU No. 2009-17").

3. New Accounting Pronouncements (continued)

ASU No. 2009-17 replaces the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and the obligation to absorb losses of, and the right to receive benefits from, the entity. This update also requires additional disclosures about a reporting entity's involvement in variable interest entities which will enhance the information provided to users of financial statements. ASU No. 2009-17 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. We are currently reviewing ASU No. 2009-17 to determine whether this will have an impact on our consolidated financial statements.

Accounting Standards Update No. 2010-02, Consolidation (Topic 810) - Accounting and Reporting for Decreases in Ownership of a Subsidiary – A Scope Clarification

In January 2010, the FASB issued Accounting Standards Update No. 2010-02, Consolidation (Topic 810) - Accounting and Reporting for Decreases in Ownership of a Subsidiary – A Scope Clarification ("ASU No. 2010-02"). ASU No. 2010-02 provides amendments to Subtopic 810-10 and related guidance within U.S. GAAP to clarify the scope of the decrease in ownership provisions of the Subtopic related guidance. It also clarifies that the decrease in ownership guidance does not apply to certain transactions even if they involve businesses. ASU No. 2010-02 is effective beginning in the period that an entity adopts SFAS No. 160 (now included in Subtopic 810-10). If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the ASC, ASU No. 2010-02 is effective in the first interim or annual reporting period ending on or after December 15, 2009 and applied retrospectively to the first period that an entity adopted SFAS No. 160. The adoption of ASU No. 2010-02 did not have an impact on our consolidated financial statements.

Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements ("ASU No. 2010-06"). ASU No. 2010-06 provides more robust disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements and the transfers between Levels 1, 2 and 3. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. We are currently evaluating the potential impact of the adoption of ASU No. 2010-06 on our consolidated financial statements.

Accounting Standards Update No. 2010-09, Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements

In February 2010, the FASB issued Accounting Standards Update No. 2010-09, Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements ("ASU No. 2010-09"). ASU No. 2010-09 addresses both the interaction of the requirements of FASB ASC 855 with the SEC's reporting requirements and the intended breadth of the reissuance disclosures provision related to subsequent events. It also has the potential to change reporting by both private and public entities, however, the nature of the change may vary depending on facts and circumstances. ASU No. 2010-09 is effective upon issuance of the final update, except for the use of the issued date for conduit debt obligors which is effective for interim or annual periods ending after June 15, 2010. As we are not an SEC filer, ASU No. 2010-09 did not have a material impact on our consolidated financial statements.

4. Investments

Effective January 1, 2008, our invested assets were 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, which previously was included in accumulated other comprehensive income (loss), was reclassified and recorded in the Consolidated Statements of Income (Loss) 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 Statements of Cash Flows based on the nature and purpose for which the related securities were acquired.

The portion of net unrealized gains and losses for the year ended December 31, 2009 and 2008, that relates to trading securities still held at the reporting date is $141.9 million gains and $1,676.7 million losses, respectively.

The estimated fair values of our fixed maturity investments and preferred stock at December 31, 2009 are as follows:

(U.S. dollars in thousands)	December 31, 2009	December 31, 2008
U.S. Treasury securities and U.S. government agency obligations	$ 104,643	$ 72,855
Corporate securities	1,166,251	1,541,975
Municipal bonds	43,803	49,549
Mortgage and asset backed securities	1,673,467	1,870,131
Preferred stock	77,410	79,767
Total	$ 3,065,574	$ 3,614,277

The contractual maturities of the held for trading fixed maturities and preferred stock at December 31, 2009 and 2008 are as follows (actual maturities may differ as a result of calls and prepayments):

	Estimated Fair Value	Estimated Fair Value
(U.S. dollars in thousands)	December 31, 2009	December 31, 2008
Due in one year or less	$ 177,986	$ 152,310
Due after one year through five years	519,981	503,192
Due after five years through ten years	302,329	415,453
Due after ten years	391,811	673,191
	1,392,107	1,744,146
Mortgage and asset backed securities	1,673,467	1,870,131
Total	$ 3,065,574	$ 3,614,277

4. Investments (Continued)

The analysis of realized (losses) gains and the change in net unrealized (depreciation) appreciation on investments and other balances for the years ended December 31, 2009 and 2008 are as follows:

(U.S. dollars in thousands)	Year Ended December 31, 2009	Year Ended December 31, 2008
Gross realized and unrealized gains (losses)		
Fixed maturities		
Gross realized gains	$ 143,433	$ 36,436
Gross realized (losses)	(8,673)	(27,785)
Net unrealized gains (losses)	133,563	(1,666,007)
	268,323	(1,657,356)
Preferred stock		
Gross realized gains	2,687	138
Gross realized (losses)	(270)	(87)
Net unrealized gains (losses)	8,306	(8,324)
	10,723	(8,273)
Other		
Foreign currency (losses)	(360)	(149)
Change in value of interest rate swap	(6,907)	-
Interest rate swap investment income	3,180	-
Write-off of Orkney Re II plc Series B Floating Rate Notes	-	(5,000)
Realized losses on modco treaties	(1,091)	(19,374)
Other	1,780	(4,897)
Net realized and unrealized gains (losses)	275,648	(1,695,049)
Change in net unrealized (depreciation) appreciation on investments		
Fixed maturities	-	(35,436)
Preferred stock	-	(59)
Change in deferred acquisition costs	-	5,442
Change in deferred income taxes	-	6,221
Change in net unrealized (depreciation) appreciation on investments	-	(23,832)
Change in net unrealized appreciation (depreciation) attributable to noncontrolling interest	-	204
Total net realized and unrealized gains (losses) and change in net unrealized (depreciation) appreciation on investments and other balances	$ 275,648	$ (1,718,677)

4. Investments (Continued)

Net investment income for the years ended December 31, 2009 and 2008 was derived from the following sources:

(U.S. dollars in thousands)	Year Ended December 31, 2009	Year Ended December 31, 2008
Fixed maturities	$ 134,638	$ 266,777
Preferred stock	5,250	5,619
Funds withheld at interest	34,694	73,747
Other investments	3,109	16,219
Investment expenses	(8,520)	(14,187)
Net investment income	$ 169,171	$ 348,175

We are required to maintain assets on deposit with various regulatory authorities to support our insurance and reinsurance operations. These requirements are promulgated in the statutory regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. We also utilize trust funds in certain transactions where the trust funds are established for the benefit of the ceding companies and generally take the place of letter of credit ("LOC") requirements. At December 31, 2009 and 2008, such assets included fixed maturities at the estimated fair value of $2,349.1 million and $3,289.9 million, respectively, and cash and cash equivalents of $217.8 million and $549.7 million, respectively. This includes controlled assets within collateral finance facilities that we consolidate. See Note 10, "Collateral Finance Facilities and Securitization Structures". The estimated fair value of these assets, as at December 31, 2009, total $1,001.3 million of investments compared to $1,529.3 million at December 31, 2008, and $113.1 million of cash and cash equivalents compared to $385.2 million in the prior year. These assets are held for the contractual obligations of these structures and for the regulatory obligations of our reinsurance operations and are not available for general corporate purposes.

The components of fair value of the total consolidated invested restricted assets at December 31, 2009 and 2008 are as follows:

(U.S. dollars in thousands)	December 31, 2009	December 31, 2008
Deposits with U.S. regulatory authorities	$ 15,863	$ 15,267
Trust funds	2,550,720	3,824,300
	$ 2,566,583	$ 3,839,567

5. Fair Value Measurements

We adopted FASB ASC 820 as of January 1, 2008. FASB ASC 820 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 FASB ASC 820 are described below:

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

5. Fair Value Measurements (Continued)

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 FASB ASC 820, 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. These models primarily are 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 composed of financial instruments whose fair value is estimated based on nonbinding brokerage 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, our 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. Interest sensitive contract liability embedded derivatives are reported with the host instruments in the Consolidated Balance Sheets.

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 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.

Long term debt at fair value has been valued using Level 2 input for the determination of fair value. The fair value was derived with reference to traded prices for identical liabilities.

5. Fair Value Measurements (Continued)

The interest rate swap derivative has been valued using Level 2 inputs including forward interest rates derived from observable information in the market place.

Embedded derivatives at fair value results from assumed and retroceded modified coinsurance ("modco") or coinsurance funds withheld reinsurance arrangements and are based upon the difference between the fair value and book value of the underlying assets backing the modco or funds withheld receivable and the fair value and book value of the underlying liabilities.

The fair value of the assets generally is based upon observable market data using valuation methods similar to those used for assets held directly by us. 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 fair value of interest sensitive contract liability embedded derivatives is determined by using the Income Approach as characterized by FASB ASC 820. This method estimates the value of future equity purchases using certain actuarial assumptions and margins. The actuarial assumptions include factors that generally are 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.

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:

(U.S. dollars in millions)	December 31, 2009 Total	Level 1	Level 2	Level 3
Investments				
Government securities	$ 104.6	$ -	$ 104.4	$ 0.2
Corporate securities	1,166.3	-	1,033.0	133.3
Municipal bonds	43.8	-	43.8	-
Mortgage and asset backed securities	1,673.5	-	1,200.7	472.8
Preferred stock	77.4	-	24.0	53.4
Equity	3.7	3.7	-	-
Derivatives – interest rate swap	25.9	-	25.9	-
Total assets at fair value	$ 3,095.2	$ 3.7	$ 2,431.8	$ 659.7
Embedded derivatives	(54.9)	-	-	(54.9)
Long term debt at fair value	(55.1)	-	(55.1)	-
Total liabilities at fair value	$ (110.0)	$ -	$ (55.1)	$ (54.9)

(U.S. dollars in millions)	December 31, 2008 Total	Level 1	Level 2	Level 3
Investments				
Government securities	$ 72.8	$ -	$ 66.1	$ 6.7
Corporate securities	1,541.9	-	1,400.7	141.2
Municipal bonds	49.6	-	49.6	-
Mortgage and asset backed securities	1,870.2	-	1,209.2	661.0
Preferred stock	79.8	-	31.2	48.6
Total assets at fair value	$ 3,614.3	$ -	$ 2,756.8	$ 857.5
Embedded derivatives	(347.5)	-	-	(347.5)
Total liabilities at fair value	$ (347.5)	$ -	$ -	$ (347.5)

5. Fair Value Measurements (Continued)

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 & Preferred Stock**	**Other Liabilities at Fair Value – Embedded Derivatives**	**Total**
Beginning balance at January 1, 2009	$ 857.5	$ (347.5)	$ 510.0
Transfers attributable to deconsolidation of Ballantyne Re	(108.6)	-	(108.6)
Total realized and unrealized gains (losses) included in net income	12.6	292.6	305.2
Purchases, issuances and settlements	(9.2)	-	(9.2)
Transfers in and/or out of Level 3	(92.6)	-	(92.6)
Ending balance at December 31, 2009	$ 659.7	$ (54.9)	$ 604.8

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
(U.S. dollars in millions)	**Fixed Maturities & Preferred Stock**	**Other Liabilities at Fair Value – Embedded Derivatives**	**Interest Sensitive Contract Liabilities – Embedded Derivatives**	**Total**
Beginning balance at January 1, 2008	$ 2,291.8	$ (38.5)	$ (93.0)	$ 2,160.3
Total realized and unrealized gains (losses) included in net loss	(1,277.8)	(309.0)	11.6	(1,575.2)
Purchases, issuances and settlements	(124.0)	-	81.4	(42.6)
Transfers in and/or out of Level 3	(32.5)	-	-	(32.5)
Ending balance at December 31, 2008	$ 857.5	$ (347.5)	$ -	$ 510.0

5. Fair Value Measurements (Continued)

We review the fair value hierarchy classifications quarterly. 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.

6. Fair Value of Financial Instruments

As discussed above, fair value of financial assets and liabilities is estimated under FASB ASC 820 using the following methods and assumptions:

(i) Fixed maturity investments and preferred stock are carried at fair value. See Note 6, "Fair Value Measurements", for a description of the methodologies and assumptions used to determine the fair value of financial instruments carried at fair value.

(ii) Other investments carrying value approximates fair value.

(iii) Funds withheld at interest represent fixed maturity investments held by ceding companies, and the fair values are consistent with the methodologies and assumptions used to determine the fair value of fixed maturities carried at fair value.

(iv) Fair values for collateral finance facilities prioritize the utilization of market value observable inputs. For any notes issued by the collateral finance facilities that are wrapped by guarantors; we defined the unit of value as the combination of the issued note and guarantee. As a result, the fair value of the collateral finance facilities incorporates the value of the guarantee, including consideration of the nonperformance risk of the guarantors.

(v) Fair value of the interest rate swap derivative has been calculated with reference to observable market inputs. See Note 5, "Fair Value Measurements" for a description of the methodologies and assumptions used to determine the fair value of financial instruments carried at fair value.

(vi) Fair value of the funds withheld from reinsurer represents fair value of the investments held from the reinsurer. The fair values are consistent with the methodologies and assumptions used to determine the fair value of fixed maturity investments.

(vii) Long term debt at fair value (i.e. outstanding Pass-Through Certificates [held by third parties]) have been derived with reference to traded prices for identical liabilities. See Note 5, "Fair Value Measurements" for a description of the methodologies and assumptions used to determine the fair value of financial instruments carried at fair value.

(viii) Fair values for our long term debt trust preferred securities were determined with reference to similar quoted securities and settlements of other Company long term debt during 2009. In 2008, the fair values for our long term debt were determined by a third party service provider.

(ix) Interest sensitive contract liabilities include amounts payable under funding agreements and investment contracts. The fair value for amounts payable under funding agreements was determined by a third party service provider with reference to similar quoted securities. The fair value of investment contracts, which exclude significant mortality risk, is based on the cash surrender value of the liabilities as an approximation of the exit market.

(x) Embedded derivatives are carried at fair value. See Note 5, "Fair Value Measurements", for a description of the methodologies and assumptions used to determine the fair value of financial instruments carried at fair value.

6. Fair Value of Financial Instruments (Continued)

(U.S. dollars in thousands)	December 31, 2009 Carrying Value	December 31, 2009 Estimated Fair Value	December 31, 2008 Carrying Value	December 31, 2008 Estimated Fair Value
Assets				
Fixed maturity investments......	$ 2,988,164	$ 2,988,164	$ 3,534,510	$ 3,534,510
Preferred stock	77,410	77,410	79,767	79,767
Other investments....................	21,482	21,482	18,112	18,112
Funds withheld at interest (excluding cash)...................	608,500	513,419	1,748,768	1,474,183
Derivatives – interest rate swap............................	25,924	25,924	-	-
Liabilities				
Collateral finance facilities......	$ 850,000	$ 765,023	$ 2,550,500	$ 1,769,650
Long term debt at fair value	55,068	55,068	-	-
Long term debt.........................	129,500	32,375	129,500	62,000
Amounts payable under funding agreements................	-	-	425,159	185,000
Investment contracts..................	1,518,365	1,485,554	1,600,395	1,554,817
Embedded derivatives................	54,934	54,934	347,519	347,519
Funds withheld from reinsurer.................................	303,104	322,306	-	-

7. Funds Withheld at Interest

For agreements written on a modco basis and certain agreements written on a funds withheld coinsurance basis, asset values recorded in the Consolidated Balance Sheets are equal to the net statutory reserve fund balances with the assets backing the reserves retained by the ceding company and managed for our account, including the reporting of amortized costs and fair value on the portfolio. The amounts in the funding accounts are adjusted quarterly to equal the net statutory reserve balances.

At December 31, 2009 and 2008, funds withheld at interest were in respect of six contracts with four ceding companies. At December 31, 2009, we had three contracts with two companies within the Lincoln Financial Group (two contracts with Lincoln National Life Insurance Company and one contract with Lincoln Life & Annuity Company of New York) that accounted for $501 million (2008 - $535 million) or 82% (2008 – 31%) of the funds withheld balances. Additionally, we had one contract with Inviva that accounted for $70 million or 12% of the funds withheld balances. In 2008, we had one contract with SLDI that accounted for $1,165 million or 67% of the funds withheld balances. This is now with Hannover Re as part of the Acquired Business transaction, effective January 1, 2009. See Note 14, "Reinsurance-*Sale of a Block of Life Reinsurance North America Business*". The remaining contracts were with Illinois Mutual Life Company and American Founders Life Insurance Company. Lincoln National Life Insurance Company has a financial strength rating of "A+" from A.M. Best and Lincoln Life & Annuity Company of New York has a financial strength rating of "NR-5" from A.M. Best, both as at December 31, 2009. In the event of insolvency of the ceding companies on these arrangements, we would need to make a claim on the assets supporting the contract liabilities**.** However, the risk of loss is mitigated by our ability to offset amounts owed to the ceding company with the amounts owed to us by the ceding company. Reserves for future policy benefits and interest sensitive contract liabilities relating to these contracts amounted to $608 million and $1,749 million at December 31, 2009 and 2008, respectively.

8. Deferred Acquisition Costs

The following reflects the amounts of policy acquisition costs deferred and amortized:

(U.S. dollars in thousands)	December 31, 2009	December 31, 2008
Balance beginning of year	$ 329,653	$ 533,625
Deferred acquisition costs associated with Ballantyne Re no longer included in the financial statements of SRGL due to de-consolidation	(711)	-
Expenses deferred	1,906	16,676
Amortization expense	(77,803)	(226,090)
Deferred acquisition costs on unrealized gains and losses	-	5,442
Balance at end of year	$ 253,045	$ 329,653

The amortization expenses in 2009 include negative amounts of $24.9 million attributable to the recaptures made in 2009 on a portion of the Acquired Business sold to Hannover Re. Amortization expenses in 2009 were the result of accelerated DAC unlocking of $15.5 million on the Financial Solutions business associated with realized gains incurred in the year.

Included in the 2008 amortization expense is the aggregate write-off of deferred acquisition costs on two significant recaptures of $76 million and the retrocession of the Clearwater Re business of $75 million.

9. Present Value of In-Force Business

A reconciliation of the present value of in-force business is as follows:

(U.S. dollars in thousands)	December 31 2009	December 31 2008
Balance at beginning of year	$ 40,105	$ 41,859
Amortization	(1,789)	(1,754)
Balance at end of year	$ 38,316	$ 40,105

A reconciliation of the gross amount of present value of in-force business and the accumulated amount of amortization, in total, is as follows:

(U.S. dollars in thousands)	December 31, 2009
Gross amount of present value of in-force business	$ 56,272
Accumulated amortization	(17,956)
Net amount of present value of in-force business	$ 38,316

9. Present Value of In-Force Business (Continued)

Future estimated amortization of the present value of in-force business is as follows:

(U.S. dollars in thousands) Year ending December 31		
2010	$	3,256
2011		2,980
2012		2,512
2013		2,338
2014		2,064
Thereafter		25,166
	$	38,316

10. Collateral Finance Facilities and Securitization Structures

Orkney Re, Inc.

On February 11, 2005, Orkney Holdings, LLC, a Delaware limited liability company ("Orkney I"), issued and sold in a private offering an aggregate of $850 million Series A Floating Rate Insured Notes due February 11, 2035 (the "Orkney Notes"). Orkney I was organized for the limited purpose of issuing the Orkney Notes and holding the stock of Orkney Re, Inc., originally a South Carolina special purpose financial captive insurance company, now a Delaware special purpose captive insurance company ("Orkney Re"). SRUS holds all of the limited liability company interest in Orkney I, and has contributed capital to Orkney I in the amount of $268.5 million. Proceeds from this offering were used to fund the Regulation XXX reserve requirements for a defined block of level premium term life insurance policies issued by direct ceding companies between January 1, 2000 and December 31, 2003, and reinsured by SRUS to Orkney Re. Proceeds from the Orkney Notes have been deposited into a series of accounts that collateralize the notes and the reserve obligations of SRUS.

The holders of the Orkney Notes have no recourse against us or any of our subsidiaries, other than Orkney I. The timely payment of interest and ultimate payment of principal for the Orkney Notes are guaranteed by MBIA Insurance Corporation ("MBIA").

Interest on the principal amount of the Orkney Notes is payable quarterly at a rate equivalent to three-month LIBOR plus 0.53%. At December 31, 2009, the interest rate was 0.80% (compared to 2.82% at December 31, 2008). Any payment of principal, including by redemption, or interest on the Orkney Notes is sourced from dividends from Orkney Re, and the balances available in a series of trust accounts generally excluding amounts on deposit in a reinsurance trust account supporting the associated reserve requirements of SRUS. Dividends only may be made after filing with the Commissioner in accordance with the terms of Orkney Re's licensing order and in accordance with applicable law. The Orkney Notes also contain a customary limitation on lien provisions and customary events of default provisions, which, if breached, could result in the accelerated maturity of the Orkney Notes. Orkney I has the option to redeem all or a portion of the Orkney Notes prior to and on or after February 11, 2010, subject to certain call premiums.

In accordance with FASB ASC 810-10, Orkney I is considered to be a variable interest entity and we are considered to hold the primary beneficial interest following a quantitative analysis whereby it was determined that we would absorb a majority of the expected losses. As a result, Orkney I is consolidated in our financial statements. The assets of Orkney I have been recorded as fixed maturity investments and cash and cash equivalents. Our

10. Collateral Finance Facilities and Securitization Structures (Continued)

Consolidated Statements of Income (Loss) shows the investment return of Orkney I as investment income and the cost of the facility is reflected in collateral finance facilities expense. Funds in the securitization structure are used for the sole purpose of the securitization structure and hence not available for general corporate purposes. See Note 4, "Investments".

To the extent that we continue to experience fair value declines in our investment portfolio, we may need to recapture a pro-rata portion of the underlying business in Orkney I and find alternative collateral support for the recaptured business. No assurances can be given that we would be successful in securing alternative collateral support.

Orkney Re, Inc. Notices of Default

On February 9, 2009, MBIA served Orkney Re, Orkney I and SRUS with notices of default under each of the Orkney I indenture and the insurance and indemnity agreement (the "Orkney Insurance Agreement"), alleging failure by the parties to provide certain required financial statements and improper withdrawals by the parties from Orkney I tax accounts. SRUS cured such alleged defaults within the cure periods set forth in the indenture and the Orkney Insurance Agreement.

On September 21, 2009, MBIA served Orkney Re, Orkney I and SRUS with a notice of default under the restructuring agreement executed at the time of Orkney Re's redomestication from South Carolina to Delaware, alleging failure by the parties to provide MBIA with an actuarial review in accordance with the requirements set forth in the restructuring agreement. SRUS, Orkney I and Orkney Re disagree with such contention. However, in the event such alleged failure to provide an actuarial review ultimately were determined to be a default, and because not cured within five (5) business days of the September 21, 2009 notice, then such default would constitute an event of default under the Orkney Insurance Agreement, which in turn would provide certain enhanced contractual rights to MBIA under the Orkney Insurance Agreement, including the right to recover from Orkney I any actual losses, costs and expenses incurred by MBIA in connection with the event of default and the receipt of certain penalty fees. Pursuant to the terms of a letter agreement put in place between SRUS and MBIA at the time of the Orkney I transaction, SRUS then would be obligated to pay on behalf of Orkney I certain of the foregoing fees and expenses to the extent due from Orkney I. As of December 31, 2009, MBIA, Orkney Re, Orkney I and SRUS were engaged in negotiations related to such actuarial review and alleged default.

For further discussion on notices of default related to Orkney Re and Orkney I, see Note 21, "Subsequent Events".

HSBC II

On December 22, 2005, we entered into an agreement with HSBC for a 20 year collateral finance facility ("HSBC II") that provided up to $934 million of financing for the purpose of collateralizing intercompany reinsurance obligations on a portion of the business acquired from the ING Companies subject to Regulation XXX reserve requirements. Simultaneously, we entered into a total return swap with HSBC under which we were entitled to the total return of the investment portfolio of the trust established for this facility. In accordance with FASB ASC 810-10, the trust associated with this facility was considered to be a variable interest entity and we were deemed to hold the primary beneficial interest in the trust following a quantitative analysis whereby it was determined that we would absorb a majority of the expected losses. As a result, the trust was consolidated in our financial statements. The total return swap represents a variable interest in the underlying trust, and therefore all fair value movements eliminate upon consolidation. Our Consolidated Statements of Income (Loss) showed the investment return of the trust as investment income and the cost of the facility was reflected in collateral finance facilities expense. Funds in this facility were used solely for the purpose of the facility and hence not available for general corporate purposes.

10. Collateral Finance Facilities and Securitization Structures (Continued)

On June 30, 2008, we executed a forbearance agreement with HSBC in respect to the HSBC II facility as previously disclosed whereby HSBC agreed to forbear taking action until December 15, 2008. In order to achieve forbearance, we agreed to certain economic and non-economic terms, including forbearance payments to HSBC, the contribution by SALIC of additional collateral to the transaction, limitations on future fundings by HSBC under the facility, and the requirement to achieve certain milestones set by HSBC related to, among other things, the sale of our Life Reinsurance North America Segment, all of which significantly increased constraints on our available capital and liquidity.

In connection with the HSBC II facility, on September 30, 2008, we entered into a binding letter of intent (the "HSBC II LOI") with ING and the ING Companies. Pursuant to the HSBC II LOI, SLD consented to the recapture by SRUS of the business (such recaptured business, the "HSBC II Recaptured Business") that had been ceded by SRUS to Scottish Re (Dublin) Limited ("SRD") for the purpose of collateralizing (with financing provided by the HSBC II collateral finance facility) the Regulation XXX reserve requirements for a portion of the business originally acquired by us from the ING Companies at the end of 2004 (such portion related to the HSBC II collateral finance facility, the "HSBC II Business") effective as of September 30, 2008 (the "HSBC II Recapture").

On October 15, 2008, we and certain of our subsidiaries entered into a series of transactions with an effective date of September 30, 2008 to unwind the HSBC II facility. In connection with the unwind transactions, HSBC was repaid in full from assets within the collateral finance facility that secured the obligations to HSBC. We also paid a \$6 million fee pursuant to the related forbearance agreement and paid a make–whole fee of \$4 million (reduced from the amount contractually owed to HSBC), and the facility and the forbearance agreement and its terms were terminated. Following the consummation of the HSBC II Recapture, SLD recaptured the HSBC II Recaptured Business from SRUS and then ceded the HSBC II Recaptured Business to SLDI, which ceded the HSBC II Recaptured Business to Scottish Re Life (Bermuda) Limited ("SRLB").

SLDI agreed to provide, or cause the provision of, one or more letters of credit ("LOCs") in order to provide SLD with statutory financial statement credit for the excess reserves associated with the HSBC II Recaptured Business over the economic reserves held in an account related thereto. In conjunction with the HSBC II Recaptured Business, the ING Companies initially provided approximately \$650 million of LOCs, with an obligation to provide additional LOCs as needed. As consideration, we agreed to bear the costs of the LOCs 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. Upon closing the transactions contemplated by the Purchase Agreement (as defined herein) for the Acquired Business, the obligation to pay these LOC fees transferred to Hannover Re. The recapture transaction recorded during the period ended September 30, 2008, based on the HSBC II LOI, resulted in no impact to the Consolidated Balance Sheets or Consolidated Statements of Income (Loss) on a consolidated GAAP basis. On October 15, 2008, when the HSBC II collateral facility was unwound, we returned to HSBC \$558.5 million to relieve the liabilities and fees associated with the facility. This resulted in a pre-tax loss of \$10.3 million. Both the unwind and the related GAAP loss were recorded as components of fourth quarter 2008 results because the unwind was not effectuated until October 2008.

On December 19, 2008, the final phase of the unwind was effected through the retrocession by SLDI of the recaptured business to SRLB. The HSBC II Recaptured Business and related LOC payment obligations were part of the Acquired Business sold to Hannover Re. Assets returned to SRUS in conjunction with the recapture consisted primarily of assets released from the economic account of the associated Reinsurance Trust (supporting the relevant economic reserves).

Ballantyne Re plc

On May 2, 2006, Ballantyne Re plc, a special purpose vehicle incorporated under the laws of Ireland, issued in a private offering \$1.74 billion of debt to external investors and \$178 million of debt to SALIC.

10. Collateral Finance Facilities and Securitization Structures (Continued)

Interest on the principal of the notes issued by Ballantyne Re (the "Ballantyne Notes") is payable in intervals ranging from every 28 days to monthly to annually, depending on the note, initially at a rate equivalent to one-month LIBOR plus 0.61% for the Class A-1 Floating Rate Notes (and after May 2, 2022, one-month LIBOR plus 1.22%), one-month LIBOR plus 0.31% for the Class A-2 Floating Rate Guaranteed Notes Series A (and after May 2, 2027, one-month LIBOR plus 0.62%), one-month LIBOR plus 0.36% for the Class A-2 Floating Rate Guaranteed Notes Series B (and after May 2, 2027, one-month LIBOR plus 0.72%), 4.99%, 4.99%, 5.00% and 5.01% for Series A, Series B, Series C, and Series D of the Class A-3 Notes, respectively (with the rate on the Class A-3 Notes to reset every 28 days), 7.51% for the Class B-1 Subordinated Notes, one-month LIBOR plus 2.00% for the Class B-2 Subordinated Floating Rate Notes, and a variable rate based on performance of the underlying block of business for the Class C-1 Subordinated Variable Interest Rate Notes and the Class C-2 Subordinated Variable Interest Rate Notes.

The holders of the Ballantyne Notes have no recourse against us or any of our subsidiaries. The timely payment of the scheduled interest payments and the principal on the maturity date of Series A of the Class A-2 Notes and Series A, Series B, Series C, Series D and, if issued, Series E of the Class A-3 Notes has been guaranteed by Ambac Assurance UK Limited ("Ambac"). The timely payment of the scheduled interest payments and the principal on the maturity date of Series B of the Class A-2 Notes and, if issued, Series F of the Class A-3 Notes has been guaranteed by Assured. Ambac and Assured are referred to collectively in the capacity as guarantors under the Ballantyne Re facility as the "Financial Guarantors".

Initially, in accordance with FASB ASC 810-10, Ballantyne Re was considered to be a variable interest entity and we were considered to hold the primary beneficial interest following a quantitative analysis whereby it was determined that we would absorb a majority of the expected losses. As a result, Ballantyne Re was consolidated in our financial statements through to December 31, 2008. The assets of Ballantyne Re were recorded as fixed maturity investments and cash and cash equivalents. Our Consolidated Statements of Income (Loss) include the investment return of Ballantyne Re as investment income and the cost of the securitization structure was reflected in collateral finance facilities expense through December 31, 2008.

Under the contractual terms of the Ballantyne Re indenture, Ballantyne Re is required to write-off all or a portion of the accrued interest and principal of the Class C-1 and Class C-2 Notes if the equity balance of Ballantyne Re (determined in accordance with International Financial Reporting Standards) falls below a specified amount as of September 30 of any year. In 2007, all of the Class C-2 Notes and a portion of the Class C-1 Notes were written off. As of September 30, 2008 and 2007, such equity balance remained below the specified amount primarily due to further fair market value declines on Ballantyne Re's investment portfolio. Under the terms of the Ballantyne Re Indenture, principal and accrued interest that were written off resulted in realized gains of $21.9 million in 2008 and $27.1 million in 2007, comprising $19.4 million (2007 - $20 million) of principal, net of the associated premium and discount, and $2.5 million (2007 - $7.1 million) of accrued interest, on the extinguishment of third party debt in accordance with FASB ASC Topic 860, Transfers and Servicing ("FASB ASC 860"), formerly SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS No. 140"). As at December 31, 2008, $nil million of Class C-1 Notes were outstanding.

Ballantyne Re Recaptures

In 2008, continued erosion in asset values in the Ballantyne Re structure created significant and material market value declines on the assets in Ballantyne Re. A majority of these assets in Ballantyne Re supported the reserve credit taken by SRUS on excess reserve obligations in respect of the business ceded by SRUS to Ballantyne Re. To avoid significant reserve credit shortfalls at SRUS arising from depressed asset values and corresponding need for capital calls from SRUS under its net worth maintenance agreement from SALIC, we entered into negotiations with the ING Companies and the Financial Guarantors to relieve statutory reserve credit shortfalls from the Ballantyne Re structure and avoid future uncertainty relating to asset valuations. These negotiations led to a series of

10. Collateral Finance Facilities and Securitization Structures (Continued)

incremental recaptures from Ballantyne Re, and eventually, the full assignment to SLD of SRUS' reserve credit exposure to the Ballantyne Re structure.

We entered into a binding letter of intent (the "March 31st LOI") with the ING Companies, effective March 31, 2008. Under the March 31st LOI, SLD consented to a recapture, as of March 31, 2008, a pro-rata portion of the business that had been ceded by SRUS to Ballantyne Re (all such recaptured business and subsequent recaptures from Ballantyne Re discussed below, collectively, the "Recaptured Business") for the purpose of collateralizing the Regulation XXX reserves for a portion of the business acquired by us from the ING Companies at the end of 2004 (such portion related to the Ballantyne Re transaction). On May 6, 2008, we completed this transaction and recaptured approximately 29.5% of the Ballantyne Business, effective as of March 31, 2008. Immediately following the consummation of this transaction, SLD recaptured the Recaptured Business from SRUS in exchange for an amount approximately equal to the assets released to SRUS on its recapture from Ballantyne Re, and then ceded the Recaptured Business to SLDI, which ceded the Recaptured Business to SRLB. The market value of the assets transferred to the ING Companies in connection with this recapture was $174.6 million and consisted of assets retained within the economic account of the Ballantyne Re trust. These assets were transferred to the ING Companies and ultimately reinsured back to us on a modified coinsurance and funds withheld basis.

We entered into a binding letter of intent with the ING Companies (the "June 30th LOI"), effective June 30, 2008. The June 30th LOI related to the business that SRUS ceded to Ballantyne Re for the purpose of collateralizing the Regulation XXX reserves for a portion of the Ballantyne Business. Pursuant to the June 30th LOI, SLD consented to the recapture by SRUS of a pro-rata portion of the Ballantyne Business effective as of June 30, 2008. On August 11, 2008, we effectuated this transaction and recaptured approximately 15.5% of the Ballantyne Business. Immediately following the consummation of this transaction, SLD recaptured the Recaptured Business from SRUS in exchange for an amount approximately equal to the assets released to SRUS on its recapture from Ballantyne Re, and then ceded the Recaptured Business to SLDI, which ceded the Recaptured Business to SRLB. The market value of the assets transferred to the ING Companies in connection with this recapture was $95 million and consisted of assets retained within the economic account of the Ballantyne Re trust. These assets were transferred to the ING Companies and ultimately reinsured back to us on a modified coinsurance and funds withheld basis.

On September 30, 2008, we entered into a binding letter of intent with the ING Companies pursuant to SLD consented to the recapture by SRUS, effective as of September 30, 2008, of a pro-rata portion of the business that had been ceded by SRUS to Ballantyne Re for the purpose of collateralizing the Regulation XXX reserves for a portion of the Ballantyne Business. On November 12, 2008, we effectuated this recapture, which comprised approximately 6.5% of the Ballantyne Business. Immediately following the consummation of this transaction, SLD recaptured the Recaptured Business from SRUS in exchange for an amount equal to approximately the assets released to SRUS on its recapture from Ballantyne Re, and then ceded it to SLDI, which in turn immediately retroceded it to SRLB, which in turn immediately retroceded to SALIC. The market value of the assets transferred to the ING Companies in connection with this recapture was $41.1 million and consisted of assets retained within the economic account of the Ballantyne Re trust. These assets were transferred to the ING Companies and ultimately reinsured back to us on a modified coinsurance and funds withheld basis.

Effective December 31, 2008, the ING Companies recaptured on a pro-rata basis, approximately 11.4% of the original Ballantyne Business. Immediately following this recapture, and effective as of December 31, 2008, SLD ceded the Recaptured Business to SLDI, which in turn immediately retroceded it to SRLB which in turn immediately retroceded it to SALIC. The market value of the assets transferred was $74.4 million.

As part of each of the recaptures discussed above, SLD ceded the Recaptured Business to SLDI, which ceded the Recaptured Business to SRLB which in turn ceded the Recaptured Business to either SRD or SALIC. SLDI agreed to provide, or cause the provision of, one or more LOCs in order to provide SLD with statutory financial

10. Collateral Finance Facilities and Securitization Structures (Continued)

statement credit for the excess reserves associated with the Recaptured Business. The assets released from Ballantyne Re in conjunction with each recapture, which resided in an account at the ING Companies for the benefit of SRLB, and in turn SRD or SALIC, as applicable and the related liabilities were ceded to us on a modified coinsurance and funds withheld coinsurance basis. In conjunction with the four recaptures, the ING Companies initially provided $843 million of LOCs, with an obligation to provide additional LOCs as needed, which was expected to reach approximately $926 million at the peak of the XXX reserve requirements. As partial consideration for each of the recaptures, we bore the costs of the LOCs by paying to SLD a facility fee based on the face amount of such LOCs outstanding. The cost of these LOCs was consistent with pricing from our 2004 acquisition agreement with the ING Companies, as amended on May 7, 2007. Upon closing the transactions contemplated by the Purchase Agreement (as defined herein) on February 20, 2009 for the Acquired Business, Hannover Re assumed the business related to the above referenced recaptures as well as the obligation to pay these LOC fees. See Note 14, "Reinsurance-*Sale of a Block of Life Reinsurance North America Business*" for further discussion related to the sale of the Acquired Business and the related assumption of the Recaptured Business.

Ballantyne Re Assignment

In order to permanently remove SRUS' future exposure to reserve credit shortfalls related to Ballantyne Re, we negotiated a transaction with the ING Companies and the Financial Guarantors to transfer SRUS' reinsurance exposure to Ballantyne Re. On November 19, 2008, with an effective date of October 1, 2008, SRUS assigned and novated to SLD the reinsurance agreement and reinsurance trust agreement between SRUS and Ballantyne Re (the "Assignment") as follows: (a) SRUS assigned its existing reinsurance agreement with Ballantyne Re (pursuant to which SRUS retroceded to Ballantyne Re the Ballantyne Business) (the "Pre-Assignment Reinsurance Agreement") to SLD and assigned its existing reinsurance trust agreement with Ballantyne Re to SLD, (b) immediately thereafter, SLD and Ballantyne Re amended and restated that reinsurance agreement (the "Post-Assignment Reinsurance Agreement"), pursuant to which SLD cedes directly to Ballantyne Re the remaining portion of the Ballantyne Business, and amended and restated that reinsurance trust agreement, pursuant to which SLD is the sole beneficiary of the reinsurance trust account maintained by Ballantyne Re, and (c) SLD and SRUS amended and restated their existing reinsurance agreement related to the Ballantyne Business to reflect these changes. Despite the foregoing recaptures and assignment, we have not changed our holdings in the Preferred Shares and Class D Notes in Ballantyne Re.

Following the Assignment, SRUS remains obligated to administer the Ballantyne Business consistent with its obligation to administer the business acquired from the ING Companies at the end of 2004, of which the Ballantyne Business is a part, and SRUS was obligated to provide specified administrative services to Ballantyne Re. However, the obligation to provide reinsurance administration for the Ballantyne Business and the remainder of the business acquired from the ING Companies at the end of 2004 (i.e., the Acquired Business) was transferred to Hannover Re in connection with Hannover Re's acquisition of the Acquired Business.

As part of the Assignment, we also agreed that if SLD recaptured business from Ballantyne Re following the Assignment in order to continue to receive full credit for reinsurance, SLDI would be entitled to cede the Recaptured Business to us, in which case we would bear the costs of the LOCs obtained to support that business as described above. In connection with the sale of the Acquired Business, Hannover Re assumed these obligations, and SLDI therefore has the right to cede any such Recaptured Business to Hannover Re, and Hannover Re will bear the costs of the relevant LOCs.

As discussed in the Disclosure Document, dated January 28, 2009, available on SRGL's website at www. scottishre.com, the Assignment does 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 we and SRUS will remain responsible for certain ongoing covenants made for the benefit of Ballantyne Re and the Financial Guarantors. In addition, SRUS has agreed to indemnify and hold harmless SLD and its affiliates for losses and

10. Collateral Finance Facilities and Securitization Structures (Continued)

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 to the extent it resulted from, generally certain breaches by SRUS under the Pre-Assignment Reinsurance Agreement, any action or omission by SRUS that causes certain tax events for Ballantyne Re or otherwise causes Ballantyne Re to be in breach of its representations, warranties or covenants or any arbitration award against SRUS that SLD pays on its behalf to avoid termination of the Post-Assignment Reinsurance Agreement.

De-consolidation of Ballantyne Re

Ballantyne Re was consolidated in our December 31, 2008 and 2007 consolidated audited financial statements. Effective January 1, 2009, Ballantyne Re no longer is consolidated within the financial statements of SALIC. Pursuant to the Purchase Agreement (as defined herein) for the disposal of the Acquired Business, Hannover Re explicitly agreed to assume the mortality risk for all recaptures of business from Ballantyne Re. Our disposal of the variable interest to absorb mortality risk recaptured from Ballantyne Re under the reinsurance agreement constituted a reconsideration event related to the consolidation of Ballantyne Re under FASB ASC 810-10, Consolidation - Overall ("FASB ASC 810-10"), which incorporates FASB Interpretation No. 46R "Consolidation of Variable Interest Entities – An Interpretation of ARB No. 51" ("FIN 46R"). We subsequently completed a primary beneficiary analysis and concluded that we no longer are the primary beneficiary of Ballantyne Re as defined within FASB ASC 810-10 and, as a result, no longer are consolidating Ballantyne Re into the financial statements of SALIC. The de-consolidation of Ballantyne Re has reduced our consolidated total assets and liabilities by approximately $885.0 million and $2,035.6 million, respectively, resulting in a one-time non-cash de-consolidation gain of $1,150.6 million which we recognized in 2009. This one-time non-cash de-consolidation gain was increased from our previous estimate of $750 million disclosed in our December 31, 2008 consolidated financial statements primarily for consideration of elimination entries related to our original investment in Ballantyne Re. This gain has no impact on our current or future liquidity position. The following tables reflect the significant balances attributable to Ballantyne Re as at the dates indicated below:

(U.S. dollars in millions)	**December 31, 2009***	**December 31, 2008****
Assets		
Investments	$ 827.9	$ 641.8
Cash and cash equivalents	18.5	235.9
All other assets	22.2	7.3
Total assets	$ 868.6	$ 885.0
Liabilities		
Reserves for future policy benefits	$ 226.8	$ 241.9
Collateral finance facilities	1,700.5	1,700.5
All other liabilities	80.3	93.2
Total liabilities	$ 2,007.6	$ 2,035.6

10. Collateral Finance Facilities and Securitization Structures (Continued)

	Year Ended	
	December 31, 2009*	**December 31, 2008****
(U.S. dollars in millions)		
Revenues		
Premiums earned, net	$ 82.9	$ 170.0
Investment income, net	34.1	89.9
Net realized and unrealized gains (losses)	50.8	(942.4)
Total revenues	$ 167.8	$ (682.5)
Expenses		
Claims and other policy benefits	$ 69.6	$ 59.6
Acquisition costs and other insurance expenses, net	21.2	41.9
Operating expenses	0.4	0.1
Collateral finance facilities expense	65.1	80.2
Total benefits and expenses	$ 156.3	$ 181.8

*Balances and statement of income (loss) are not consolidated in the consolidated financial statements as of December 31, 2009.

**Balances and statement of income (loss) are consolidated in the consolidated financial statements as of December 31, 2008.

As of December 31, 2009, we had no remaining direct loss exposure related to Ballantyne Re since our interests in the Ballantyne Re Class D Notes and Preferred Shares are valued at $0 and are classified as trading securities on the Consolidated Balance Sheets as of December 31, 2009. The Class C Notes were contractually written-off during 2008.

Following the presentation of the de-consolidation of Ballantyne Re discussed herein, we do not intend in future periods to continue to disclose events or matters related to Ballantyne Re except if and to the extent such events have a material relevance to our financial results or condition.

Ballantyne Re Event of Default

Beginning with the scheduled interest payment date on January 2, 2009, and continuing until February 3, 2009, Ballantyne Re was unable to make scheduled interest payments on the Class A Notes. Failure to make such payments in full when due constitutes an event of default under the Ballantyne Re indenture ("EOD"). During this default period, Ambac made guarantee payments on the Class A-2 Notes and Class A-3 Notes in the aggregate amount of $2.4 million and Assured made guarantee payments on the Class A-2 Notes in the aggregate amount of $0.8 million. On February 9, 2009 a partial recapture of the business was completed by the ceding insurer, thereby lowering the reserve funding requirement and allowing for more available assets to make interest payments. On the following date, Ballantyne Re paid all deferred and accrued interest on the Class A-1 Notes in full, and repaid Ambac and Assured for all guarantee payments made during the default period (plus interest). As a result of the EOD, Ambac and Assured continue to have certain enhanced contractual rights under the transaction documents and additional fees will be accrued for the guarantee coverage.

10. Collateral Finance Facilities and Securitization Structures (Continued)

Reinsurance Facility

On December 22, 2005, we entered into a long term reinsurance facility ("Reinsurance Facility"), with a third-party Bermuda-domiciled reinsurer that provided up to $1 billion of collateral support for a portion of the business acquired from the ING Companies and subject to Regulation XXX reserve requirements. The Bermuda reinsurer provided reserve credit in the form of letters of credit or assets in trust equal to the U.S. statutory reserves. As of December 31, 2008, $1 billion, compared to $904.6 million at December 31, 2007, of collateral support was being provided. All of the business included in this Reinsurance Facility formed a part of the Acquired Business, and as such, was acquired by Hannover Re, effective January 1, 2009, in connection with Hannover Re's acquisition of the Acquired Business. The transfer of the Reinsurance Facility to Hannover Re was accomplished through a series of novation agreements between and among the applicable Company affiliate, the ING Companies and Hannover Re. The facility is not considered a variable interest entity and consequently is not consolidated in our consolidated financial statements.

Clearwater Re Limited

On June 25, 2007, Clearwater Re Limited ("Clearwater Re") was incorporated under the laws of Bermuda and issued in a private offering $365.9 million of Floating Rate Variable Funding Notes due August 11, 2037 to external investors (the "Clearwater Re Notes"). Proceeds from this offering were used to fund the Regulation XXX reserve requirements for a defined block of level premium term life insurance policies issued between January 1, 2004 and December 31, 2006 and reinsured by SRUS. Clearwater Re replaced our first collateral finance facility with HSBC, which we historically referred to as "HSBC I" and which was terminated in its entirety in connection with the creation of the Clearwater Re facility. Prior to its termination, the HSBC I facility had provided $188.5 million of Regulation XXX reserve funding. Proceeds from the Clearwater Re Notes were deposited into a reinsurance credit trust to collateralize the statutory reserve obligations of the defined block of policies noted above. External investors committed to funding up to $555 million of the ongoing Regulation XXX collateral requirements on this block.

Payment of interest and principal under the Clearwater Re Notes on the maturity date and following an event of default by Clearwater Re and related acceleration of the Clearwater Re Notes were guaranteed by SALIC and by SRGL. Interest on the principal amount of the Clearwater Re Notes was payable quarterly at a rate equivalent to three month LIBOR plus a spread determined by SALIC's insurance financial strength rating and SRGL's senior unsecured credit rating.

In accordance with FASB ASC 810-10, Clearwater Re was considered to be a variable interest entity and we were deemed to hold the primary beneficial interest following a quantitative analysis whereby it was determined that we would absorb a majority of the expected losses. As a result, Clearwater Re was consolidated in our financial statements. The assets of Clearwater Re were recorded as fixed maturity investments and cash and cash equivalents. Our Consolidated Statements of Income (Loss) included the investment return of Clearwater Re as investment income and the cost of the facility was reflected in collateral finance facilities expense. Funds in the Clearwater Re facility were fully used solely for the purpose of the facility and hence not available for general corporate purposes. See Note 4, "Investments".

On June 30, 2008, we executed forbearance agreements with the relevant bank counterparties to the Clearwater Re facility, whereby such counterparties agreed to forbear taking action until December 15, 2008. In order to achieve forbearance, we agreed to certain economic and non-economic terms, including forbearance payments to the Clearwater Re counterparties, the contribution by SALIC of additional collateral to the transactions, limitations on future fundings by the Clearwater counterparties under the facility, and the requirement to achieve certain milestones set by the counterparties related to, among other things, the sale of our Life Reinsurance North America Segment.

10. Collateral Finance Facilities and Securitization Structures (Continued)

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 which in turn has retroceded to Hannover (Ireland) (collectively, the "Clearwater Re Recapture Transaction"). Effective September 30, 2008, SRUS retroceded the remaining portion of the defined block of business that it had retained at the time of the Clearwater Re transaction to the same third party reinsurer who in turn retroceded such business to Hannover (Ireland). In connection with the Clearwater Re Recapture Transaction, the bank counterparties to the Clearwater Re facility were repaid in full with assets from within the facility, which secured the obligations owed to the bank counterparties. Such assets resided in the excess account of the associated reinsurance trust that supported the relevant excess reserves, and in a surplus account governed by an indenture. Assets returned to SRUS in conjunction with the Clearwater Re Recapture Transaction were primarily released from the economic account of the associated reinsurance trust that supported the relevant economic reserves. We also paid a $4 million fee to the bank-counterparties and the facility, and the related forbearance agreement and its terms, were terminated. On a consolidated GAAP basis, the Clearwater Re Recapture Transaction and the subsequent retrocession of a related portion of business resulted in a reduction of total assets and total liabilities of approximately $624 million and $504 million, respectively, resulting in a GAAP pre-tax loss of $119.5 million during the year ended December 31, 2008. The loss primarily was comprised of the write-off of deferred acquisition costs of $75.1 million and a negative ceding commission of $39.4 million. The foregoing transactions eliminated the associated reserve credit strain in SRUS.

10. Collateral Finance Facilities and Securitization Structures (Continued)

Consolidated Collateral Finance Facilities and Securitization Structures

The following table reflects the significant balances attributable to the collateral finance facilities and securitization structures providing collateral support to us as at and for the year ended December 31, 2009:

(U.S. dollars in millions)	Clearwater Re	Orkney I	Total
Assets			
Investments	$ -	$ 1,001.1	$ 1,001.1
Cash and cash equivalents	0.3	113.1	113.4
All other assets	-	106.4	106.4
Total assets	$ 0.3	$ 1,220.6	$ 1,220.9
Liabilities			
Reserves for future policy benefits	$ -	$ 313.0	$ 313.0
Collateral finance facilities	-	850.0	850.0
All other liabilities.....	0.1	5.8	5.9
Total liabilities	$ 0.1	$ 1,168.8	$ 1,168.9
Revenues			
Premiums earned, net	$ -	$ 96.3	$ 96.3
Investment income, net	0.1	22.7	22.8
Net realized and unrealized gains (losses)	-	71.3	71.3
Net embedded derivative adjustments...........	-	-	-
Total revenues	$ 0.1	$ 190.3	$ 190.4
Expenses			
Claims and other policy benefits	$ -	$ 84.5	$ 84.5
Acquisition costs and other insurance expenses, net	-	22.3	22.3
Operating expenses ...	-	0.3	0.3
Collateral finance facilities expense	-	20.4	20.4
Total benefits and expenses	$ -	$ 127.5	$ 127.5

10. Collateral Finance Facilities and Securitization Structures (Continued)

The following table reflects the significant balances attributable to the collateral finance facilities and securitization structures providing collateral support to the Company as at and for the year ended December 31, 2008:

(U.S. dollars in millions)	Clearwater Re	Ballantyne Re	Orkney I	HSBC II	Total
Assets					
Investments	$ -	$ 641.8	$ 887.6	$ -	$ 1,529.4
Cash and cash equivalents	0.3	235.9	148.9	-	385.1
All other assets	-	7.3	117.6	-	124.9
Total assets	$ 0.3	$ 885.0	$ 1,154.1	$ -	$ 2,039.4
Liabilities					
Reserves for future policy benefits	$ -	$ 241.9	$ 306.7	$ -	$ 548.6
Collateral finance facilities	-	1,700.5	850.0	-	2,550.5
All other liabilities	0.2	93.2	8.4	-	101.8
Total liabilities	$ 0.2	$ 2,035.6	$ 1,165.1	$ -	$ 3,200.9
Revenues					
Premiums earned, net	$ 48.5	$ 170.0	$ 99.4	$ -	$ 317.9
Investment income, net	14.1	89.9	47.3	14.4	165.7
Net realized (losses) gains	(12.4)	(961.8)	(239.7)	33.1	(1,180.8)
Gain on extinguishment of third-party debt	-	19.4	-	-	19.4
Total revenues	$ 50.2	$ (682.5)	$ (93.0)	$ 47.5	$ (677.8)
Expenses					
Claims and other policy benefits	$ 42.3	$ 59.6	$ 90.0	$ -	$ 191.9
Acquisition costs and other insurance expenses, net	39.6	41.9	22.2	-	103.7
Operating expenses	0.1	0.1	0.7	-	0.9
Collateral finance facilities expense	17.7	80.2	37.9	14.5	150.3
Total benefits and expenses	$ 99.7	$ 181.8	$ 150.8	$ 14.5	$ 446.8

11. Funds Withheld from Reinsurer

Funds withheld from reinsurer represent the assets withdrawn by the Company from the reserve credit trust established by Orkney II for the benefit of SRUS. For further discussion on this, see Note 19, “Related Party Transactions”.

12. Debt Obligations and Other Funding Arrangements

Long-term debt consists of:

(U.S. dollars in thousands)	December 31 2009	December 31 2008
Capital securities due 2032	$ 17,500	$ 17,500
Preferred trust securities due 2033	20,000	20,000
Trust preferred securities due 2033	10,000	10,000
Trust preferred securities due 2034	32,000	32,000
Trust preferred securities due 2034	50,000	50,000
Long term debt at par value	$ 129,500	$ 129,500
Outstanding Pass-Through Certificates	$ 55,068	$ -
Long term debt at fair value	$ 55,068	$ -

Capital Securities Due 2032

On December 4, 2002, Scottish Holdings Statutory Trust I, a Connecticut statutory business trust ("Capital Trust") issued and sold in a private offering an aggregate of $17.5 million Floating Rate Capital Securities (the "Capital Securities"). All of the common shares of the Capital Trust are owned by Scottish Holdings, Inc. ("SHI"), our wholly owned subsidiary.

The Capital Securities mature on December 4, 2032. They are redeemable in whole or in part at any time after December 4, 2007. Interest is payable quarterly at a rate equivalent to three-month LIBOR plus 4%. At December 31, 2009 and 2008, the interest rates were 4.25% and 5.43%, respectively. The Capital Trust may defer payment of the interest for up to 20 consecutive quarterly periods, but no later than December 4, 2032. Any deferred payments would accrue interest quarterly on a compounded basis if SHI defers interest on the Debentures due December 4, 2032 (as described below).

The sole assets of the Capital Trust consist of $18 million principal amount of Floating Rate Debentures (the "Debentures") issued by SHI. The Debentures mature on December 4, 2032 and interest is payable quarterly at a rate equivalent to three-month LIBOR plus 4%. At December 31, 2009 and 2008, the interest rates were 4.25% and 5.43%, respectively. SHI may defer payment of the interest for up to 20 consecutive quarterly periods, but no later than December 4, 2032. Any deferred payments would accrue interest quarterly on a compounded basis. SHI may redeem the Debentures at any time after December 4, 2007 and in the event of certain changes in tax or investment company law.

SALIC has guaranteed SHI's obligations under the Debentures and distributions and other payments due on the Capital Securities.

Preferred Trust Securities Due 2033

On October 29, 2003, Scottish Holdings, Inc. Statutory Trust II, a Connecticut statutory business trust ("Capital Trust II") issued and sold in a private offering an aggregate of $20 million Preferred Trust Securities (the "Preferred Trust Securities"). All of the common shares of Capital Trust II are owned by SHI.

The Preferred Trust Securities mature on October 29, 2033. They are redeemable in whole or in part at any time after October 29, 2008. Interest is payable quarterly at a rate equivalent to three-month LIBOR plus 3.95%. At December 31, 2009 and 2008, the interest rates were 4.20% and 5.38%, respectively. Prior to October 29, 2008, interest cannot exceed 12.45%. Capital Trust II may defer payment of the interest for up to 20 consecutive quarterly

12. Debt Obligations and Other Funding Arrangements (Continued)

periods, but no later than October 29, 2033. Any deferred payments would accrue interest quarterly on a compounded basis if SHI defers interest on the 2033 Floating Rate Debentures due October 29, 2033 (as described below).

The sole assets of Capital Trust II consist of $20.6 million principal amount of Floating Rate Debentures (the "2033 Floating Rate Debentures") issued by SHI. The 2033 Floating Rate Debentures mature on October 29, 2033 and interest is payable quarterly at three-month LIBOR plus 3.95%. At December 31, 2009 and 2008, the interest rates were 4.20% and 5.38%, respectively. SHI may defer payment of the interest for up to 20 consecutive quarterly periods, but no later than October 29, 2033. Any deferred payments would accrue interest quarterly on a compounded basis. SHI may redeem the 2033 Floating Rate Debentures at any time after October 29, 2008 and in the event of certain changes in tax or investment company law.

SALIC has guaranteed SHI's obligations under the 2033 Floating Rate Debentures and distributions and other payments due on the Preferred Trust Securities.

Trust Preferred Securities Due 2033

On November 14, 2003, GPIC Holdings Inc. Statutory Trust, a Delaware statutory business trust ("GPIC Trust") issued and sold in a private offering an aggregate of $10 million Trust Preferred Securities (the "2033 Trust Preferred Securities"). All of the common shares of GPIC Trust are owned by SHI.

The 2033 Trust Preferred Securities mature on September 30, 2033. They are redeemable in whole or in part at any time after September 30, 2008. Interest is payable quarterly at a rate equivalent to three-month LIBOR plus 3.90%. At December 31, 2009 and 2008, the interest rates were 4.15% and 5.33%, respectively. GPIC Trust may defer payment of the interest for up to 20 consecutive quarterly periods, but no later than September 30, 2033. Any deferred payments would accrue interest quarterly on a compounded basis if SHI defers interest on the Junior Subordinated Notes due September 30, 2033 (as described below).

The sole assets of GPIC Trust consist of $10.3 million principal amount of Junior Subordinated Notes (the "Junior Subordinated Notes") issued by SHI. The Junior Subordinated Notes mature on September 30, 2033 and interest is payable quarterly at three-month LIBOR plus 3.90%. At December 31, 2009 and 2008, the interest rates were 4.15% and 5.33%, respectively. SHI may defer payment of the interest for up to 20 consecutive quarterly periods, but no later than September 30, 2033. Any deferred payments would accrue interest quarterly on a compounded basis. SHI may redeem the Junior Subordinated Notes at any time after September 30, 2008 and in the event of certain changes in tax or investment company law.

SALIC has guaranteed SHI's obligations under the Junior Subordinated Notes and distributions and other payments due on the trust preferred securities.

Trust Preferred Securities Due 2034

On May 12, 2004, Scottish Holdings, Inc. Statutory Trust III, a Connecticut statutory business trust ("Capital Trust III") issued and sold in a private offering an aggregate of $32 million Trust Preferred Securities (the "2034 Trust Preferred Securities"). All of the common shares of Capital Trust III are owned by SHI.

The 2034 Trust Preferred Securities mature on June 17, 2034. They are redeemable in whole or in part at any time after June 17, 2009. Interest is payable quarterly at a rate equivalent to three-month LIBOR plus 3.80%. At December 31, 2009 and 2008, the interest rate was 4.05% and 5.23%, respectively. Prior to June 17, 2009, interest could not exceed 12.50%. Capital Trust III may defer payment of the interest for up to 20 consecutive quarterly

12. Debt Obligations and Other Funding Arrangements (Continued)

periods, but no later than June 17, 2034. Any deferred payments would accrue interest quarterly on a compounded basis if SHI defers interest on the 2034 Floating Rate Debentures due June 17, 2034 (as described below).

The sole assets of Capital Trust III consist of $33 million principal amount of Floating Rate Debentures (the "2034 Floating Rate Debentures") issued by SHI. The 2034 Floating Rate Debentures mature on June 17, 2034 and interest is payable quarterly at three-month LIBOR plus 3.80%. At December 31, 2009 and 2008 the interest rate was 4.05% and 5.23%, respectively. Prior to June 17, 2009, interest could not exceed 12.50%. SHI may defer payment of the interest for up to 20 consecutive quarterly periods, but no later than June 17, 2034. Any deferred payments would accrue interest quarterly on a compounded basis. SHI may redeem the 2034 Floating Rate Debentures at any time after June 17, 2009 and in the event of certain changes in tax or investment company law.

SALIC has guaranteed SHI's obligations under the 2034 Floating Rate Debentures and distributions and other payments due on the 2034 Trust Preferred Securities.

Trust Preferred Securities Due 2034

On December 18, 2004, SFL Statutory Trust I, a Delaware statutory business trust ("SFL Trust I") issued and sold in a private offering an aggregate of $50 million Trust Preferred Securities (the "December 2034 Trust Preferred Securities"). All of the common shares of SFL Trust I are owned by Scottish Financial (Luxembourg) S.a.r.l ("SFL").

The December 2034 Trust Preferred Securities mature on December 15, 2034. They are redeemable in whole or in part at any time after December 15, 2009. Interest is payable quarterly at a rate equivalent to three-month LIBOR plus 3.50%. At December 31, 2009, and 2008 the interest rate was 3.75% and 4.93%, respectively. Prior to December 15, 2009, interest could not exceed 12.50%. SFL Trust I may defer payment of the interest for up to 20 consecutive quarterly periods, but no later than December 15, 2034. Any deferred payments would accrue interest quarterly on a compounded basis if SFL defers interest on the 2034 Floating Rate Debentures due December 15, 2034 (as described below).

The sole assets of SFL Trust I consist of $51.5 million principal amount of Floating Rate Debentures (the "December 2034 Floating Rate Debentures") issued by SFL. The December 2034 Floating Rate Debentures mature on December 15, 2034 and interest is payable quarterly at three-month LIBOR plus 3.50%. At December 31, 2009 and 2008 the interest rate was 3.75% and 4.93%, respectively. Prior to December 15, 2009, interest could not exceed 12.50%. SFL may defer payment of the interest for up to 20 consecutive quarterly periods, but no later than December 15, 2034. Any deferred payments would accrue interest quarterly on a compounded basis. SFL may redeem the December 2034 Floating Rate Debentures at any time after December 15, 2009 and in the event of certain changes in tax or investment company law.

SALIC has guaranteed SFL's obligations under the December 2034 Floating Rate Debentures and distributions and other payments due on the December 2034 Trust Preferred Securities.

Stingray

On January 12, 2005, SALIC entered into a put agreement with the Stingray Investor Trust for an aggregate value of $325 million, which put agreement relates to $325 million aggregate stated amount of 5.902% Pass-Through Certificates, with a final maturity of 2015, issued by the Stingray Pass-Through Trust (together with the Stingray Investor Trust, "Stingray"). Under the terms of the put agreement, we acquired an irrevocable put option to issue funding agreements to the Stingray Investor Trust in return for the assets in a portfolio of 30-day commercial paper.

12. Debt Obligations and Other Funding Arrangements (Continued)

Since April 14, 2008, the Stingray facility has been fully utilized and $325 million of funding agreements have been issued to the Stingray Investor Trust and remain outstanding as of December 31, 2009. Funds drawn down on the facility were included in interest sensitive contract liabilities on our Consolidated Balance Sheets as at December 31, 2008.

On August 3, 2009, we began to acquire Pass-Through Certificates through a number of privately negotiated purchases. These purchases represented reconsideration events under FASB ASC 810-10. We used a quantitative analysis in determining that the holder of the majority of the Pass-Through Certificates would absorb the majority of the expected gains or losses of Stingray. As a result of these acquisitions, by October 8, 2009, we had acquired Pass-Through Certificates with a stated amount of $169.4 million. This holding represented the majority of the Pass-Through Certificates; therefore at that time we determined we were the primary beneficiary of Stingray and we were required to consolidate Stingray in our consolidated financial statements. The consolidation of Stingray has been recorded in accordance with ASC 810-10, which requires us to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in Stingray at the acquisition date, measured at their fair values as of that date. We are also required to eliminate any inter-company balances and transactions. The Stingray structure included an interest rate swap, as a mechanism for charging interest to SALIC on the funding agreements at a variable interest rate and paying interest to the Pass-Through Certificate holders at a fixed rate. The interest rate swap is included in Other Assets at a fair value of $25.9 million on our Consolidated Balance Sheets as at December 31, 2009. Movements in the fair value of the interest rate swap are included in net realized and unrealized income (losses) in the Consolidated Statements of Income (Loss). The total assets and liabilities of Stingray at initial consolidation were $32.8 million and $52.1 million, respectively. As a result of the initial consolidation of Stingray, we recognized a gain of $248.9 million as follows:

(U.S. dollars in thousands)	
Elimination of investment in Stingray Pass-Through Trust	$ (56,747)
Recognition of interest rate swap at fair value	32,831
Recognition of outstanding Pass-Through Certificates at fair value	(52,128)
Elimination of liability to Stingray Investor Trust	325,000
	$ 248,956

On November 16, 2009, SALIC launched a cash tender offer to purchase any and all of the remaining outstanding Pass-Through Certificates. The tender offer was made to the holders (the "Holders") of all or part of such Pass-Through Certificates not currently held by SALIC or any of our affiliates upon the terms and subject to the conditions set forth in the related Offer to Purchase and Consent Solicitation, dated November 16, 2009 (the "Offer to Purchase") and the related Consent and Letter of Transmittal, dated November 16, 2009 (the "Letter of Transmittal" and, together with the Offer to Purchase, the "Offer"). As of the date of the launch of the Offer, $155.6 million in aggregate stated amount of Pass-Through Certificates were held by third party Holders and therefore subject to the Offer.

In conjunction with the Offer, SALIC also solicited the consent of a requisite percentage of the Holders (the "Requisite Consents") to proposed amendments to certain of the related transaction documents. The Offer was not conditional upon receipt of the Requisite Consents, and no separate consideration was offered or paid for the consents.

On December 15, 2009, the Offer was accepted by the Holders of $57.3 million in aggregate stated amount of Pass-Through Certificates. The Requisite Consents were not received. The acquisition of Pass-Through Certificates

12. Debt Obligations and Other Funding Arrangements (Continued)

in the Offer resulted in an additional gain on consolidation of $4.9 million. The total gain on consolidation for the year ended December 31, 2009 was $253.8 million.

For further discussion on purchases of Pass-Through Certificates subsequent to December 31, 2009, see Note 21, "Subsequent Events".

We have elected the fair value option under FASB ASC 825 in respect of the Pass-Through Certificates to the Holders. We have elected this option as it will reflect more appropriately the value of the liability at subsequent reporting periods. The fair value as at December 31, 2009 of the outstanding Pass-Through Certificates held by third party Holders is $55.1 million (aggregate stated amount - $98.3 million) and is included in long term debt at fair value in our Consolidated Balance Sheets. Changes in fair value will be reflected through earnings. The change in fair value, for the year ended December 31, 2009, of the Pass-Through Certificates held by third party Holders was a loss of $22.1 million. See Note 5, "Fair Value Measurements".

Premium Asset Trust Series 2004-4

On March 12, 2004, we entered into an unsecured funding agreement with the Premium Asset Trust for an aggregate of $100 million (the "PATS"). The funding agreement had a stated maturity of March 12, 2009 and accrued interest at a rate of three-month LIBOR plus 0.922%, payable on a quarterly basis. The amount due under this funding agreement was included under interest sensitive contract liabilities on the Consolidated Balance Sheets.

Through negotiated repurchases, we extinguished the $100 million payment obligation falling due on March 12, 2009, in respect of the PATS funding agreement. Such repurchases were completed for a total consideration of $46.5 million compared to the $100 million par value of the PATS. Consequently, in accordance with FASB ASC Topic 860, Transfers and Servicing, which now incorporates SFAS No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Liabilities – A Replacement of FASB Statement 125,*" we recorded a gain on the extinguishment of the PATS debt of $53.5 million in the first quarter of 2009. The funding agreements were included in interest sensitive contract liabilities in the accompanying Consolidated Balance Sheets at December 31, 2008.

Deferral of Interest Payments on Floating Rate Capital Securities and Trust Preferred Securities

In order to further preserve liquidity, we began deferring interest payments as of March 4, 2009 on our floating rate capital securities and trust preferred securities issued and sold through certain statutory trusts established by us. These deferrals are permitted by the terms of the indentures governing the securities and have been made at the discretion of our Board to preserve liquidity. Under the terms of these securities, Scottish Re is entitled to defer interest payments for up to 20 consecutive quarterly periods. As of December 31, 2009, we have accrued and deferred payment of $6.0 million of interest on such securities. SHI and SALIC are restricted in their ability to make dividend payments in any period where interest payment obligations on these securities are not current.

For further discussion on the accrued and deferred payment on our floating rate capital securities and trust preferred securities subsequent to December 31, 2009, see Note 21, "Subsequent Events".

Credit Facilities

On November 30, 2006, SALIC and SRL entered into a one year, $5 million letter of credit facility with a single bank on a fully secured basis. This facility was amended on October 31, 2007, to a term of two years and to a limit of $15 million. On October 31, 2009, this facility was automatically renewed and remains in place until cancelled by either us or the bank. Outstanding letters of credit for SALIC at December 31, 2009 and 2008 were $75,000.

13. Shareholder's Equity

Ordinary Shares

We are authorized to issue 20,000,000 ordinary shares of par value $1.00 each. As at December 31, 2009 and 2008, there were 20,000,000 ordinary shares outstanding. During the year end December 31, 2009, SRGL contributed capital of $76.6 million to the Company. During the year ended December 31, 2008, SRGL did not contribute any capital to the Company.

14. Reinsurance

Premiums Earned

Premiums earned are analyzed as follows for the year ended:

	December 31	
(U.S. dollars in thousands)	**2009**	**2008**
Premiums assumed	$ 763,190	$ 2,049,408
Premiums ceded	(362,297)	(452,591)
Premiums earned, net	$ 400,893	$ 1,596,817

Reinsurance agreements may provide for recapture rights on the part of the ceding company. Recapture rights permit the ceding company to reassume all or a portion of the risk formerly ceded to the reinsurer after an agreed-upon period of time or in some cases due to changes in the financial condition or ratings of the reinsurer. Recapture of business previously ceded does not affect premiums ceded prior to the recapture of such business, but would reduce premiums, claims and commissions in subsequent periods.

Claims and Other Policy Benefits

Claims and other policy benefits are net of reinsurance recoveries of $300.6 million and $417.8 million during the years ended December 31, 2009 and 2008, respectively.

At December 31, 2009 and 2008, there were no reinsurance ceded receivables associated with a single reinsurer with a carrying value in excess of 1% of total assets.

Sale of a Block of Life Reinsurance North America Business

We engaged in 2008 in a process to sell our entire Life Reinsurance North America Segment. In October 2008, the process led to exclusive negotiations with a prospective buyer; however, a satisfactory transaction for the sale of the entire Life Reinsurance North America Segment could not be reached, primarily as a result of the historic disruption in the financial markets. Thereafter, in an effort to find ways to address our capital, liquidity and collateral needs and the concerns of regulators, we pursued the sale of a specific block of individual life reinsurance

14. Reinsurance (Continued)

in our North American business. These efforts culminated in the announcement on February 20, 2009 that we had closed the transactions contemplated by the Master Asset Purchase Agreement (the "Purchase Agreement"), by and among the Company, SHI, SRUS, SRLB and SRD (collectively, the "Sellers") with Hannover Re to sell a block of individual life reinsurance business acquired in 2004 from the ING Companies, which block consisted primarily of term life reinsurance universal life with secondary guarantees, and yearly renewable term business (the "Acquired Business").

Pursuant to the Purchase Agreement, Hannover Re purchased the Acquired Business, which was acquired in 2004 by us from the ING Companies. The Acquired Business consists primarily of term life reinsurance, universal life with secondary guarantees, and yearly renewable term business. When we originally purchased the Acquired Business in 2004, the ING Companies reinsured their individual life reinsurance business to us on a 100% indemnity reinsurance basis. A large portion of such business included guaranteed level premium term life insurance that was subject to the "Regulation XXX" reserve requirements and universal life policies with secondary guarantees subject to the "Regulation AXXX" reserve requirements. Under our 2004 agreement with the ING Companies, the ING Companies were obligated to maintain collateral for the Regulation XXX and AXXX reserve requirements of the Acquired Business for the duration of such requirements, and financial incentives were provided to encourage us to replace this financing with alternative third party financing. The Acquired Business does not include business ceded by SRUS to Ballantyne Re as the reinsurance transaction with this special purpose reinsurance vehicle was novated and assigned from SRUS to SLD effective October 1, 2008. However, the Acquired Business does include the business recaptured from Ballantyne Re in connection with a series of recaptures during 2008 in which SRUS recaptured business from Ballantyne Re, which business then was recaptured by SLD which in turn ceded the recaptured business to SLDI who ceded it to SRLB (the foregoing recaptures, collectively, the "Ballantyne Recaptures"), as well as the business recaptured in connection with the unwind of our HSBC II collateral finance facility (together with the Ballantyne Recaptures, the "ING Financings"). In connection with each of the ING Financings, SLD ceded the applicable recaptured business to SLDI, which ceded the recaptured business to SRLB. SLDI 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 reserves associated with the recaptured business in respect of the ING Financings. As partial consideration for each of the ING Financings, the Company agreed to bear the costs of the LOCs by paying SLD a facility fee based on the face amount of such LOCs outstanding. The cost of these LOCs was consistent with the pricing schedules from our 2004 acquisition agreement with ING Companies, as such schedule was amended on May 7, 2007. Upon closing the transactions contemplated by the Purchase Agreement, Hannover Re assumed the business related to the ING Financings as part of the Acquired Business, as well as the obligation to pay the existing and any future increases in the related LOC fees.

In connection with the Purchase Agreement, the ING Companies and certain of the Sellers entered into recapture agreements (and, in specific instances, novations to Hannover Re of certain existing reinsurance agreements) with respect to the Acquired Business, and the ING Companies and Hannover Re subsequently entered into new reinsurance agreements with respect to the Acquired Business immediately thereafter. These recapture and reinsurance transactions and the novations had an effective date of January 1, 2009. SRUS and SRLB remain responsible for liabilities and obligations to SLD and SLDI under their reinsurance agreements with these parties to the extent attributable to periods prior to January 1, 2009.

The Purchase Agreement also related to the purchase and sale of certain assets used by the Sellers in connection with their administration of the Acquired Business (the "Transferred Assets") and the transfer of certain employees from the Sellers to Hannover Re in connection therewith. Pursuant to the Purchase Agreement, the remaining lease on SRUS' Denver office location was assigned to Hannover Re as was a portion of SRUS' Charlotte office location. In addition, Hannover Re entered into an administrative services agreement with SRUS pursuant to which Hannover

14. Reinsurance (Continued)

Re administers the accepted and ceded mortality business retained by SRUS and its affiliates. Similarly, Hannover Re entered into an administrative services agreement with the ING Companies pursuant to which Hannover Re administers the Acquired Business and provides certain other administrative services to the ING Companies.

In accordance with the Purchase Agreement, payments were made as follows: (i) the Sellers made recapture payments to the ING Companies in an aggregate amount equal to $1,325 million (adjusted for interim period earnings from January 1, 2009 to the date of closing), (ii) the ING Companies made corresponding initial premium payments to Hannover Re, and (iii) Hannover Re made a payment to the Sellers in respect of the Transferred Assets in an amount equal to $18 million.

Following the transfer of assets with respect to the recapture payments noted above, we were released of all associated policyholder liabilities on the sale of the Acquired Business as of the effective date of January 1, 2009. The release of such liabilities resulted in a pre-tax gain of $703.6 million, after transaction expenses and related costs. This gain was also subject to certain contingencies, which have all been satisfied as at December 31, 2009 is summarized as follows:

(U.S. dollars in millions)	**Balance Sheet**	**Statement of Income (Loss)**
Transfer of investments	$ (1,468.7)	
Release of reserve for future policy benefits	1,902.9	
Decrease in accounts payable and other liabilities	1.7	
Decrease in reinsurance balances and risk fees receivable	(6.3)	
Decrease in reinsurance balances payable	4.7	
Increase in other assets	18.7	
Decrease in claims and other policy benefits	$ 453.0	$ 453.0
Decrease in accounts payable and other liabilities	275.5	
Change in value of embedded derivatives	$ 275.5	275.5
Release in deferred acquisition costs	(24.9)	
Acquisition costs and other insurance expenses, net	$ (24.9)	(24.9)
Total pre-tax gain as at December 31, 2009		$ 703.6

In connection with the Purchase Agreement, the Company, Hannover Re and the ING Companies agreed to use commercially reasonable efforts to transfer to Hannover Re certain retrocession agreements under which we and/or the ING Companies ceded to third parties certain risks related to the Acquired Business. If a certain amount of such third party retrocessionaires did not consent to such transfers prior to April 30, 2009, we were required under the Purchase Agreement to deposit into escrow with Hannover Re by May 14, 2009, a pro-rata amount related to such retrocession agreements for which consent had not been obtained as of that date. Pursuant to the Purchase Agreement, in the event none of the retrocessionaires consented to transfer their agreements, the maximum potential escrow funding amount was $136.3 million. In the event one or more retrocessionaire consents had not been obtained by December 31, 2009, the related escrow funds would be released to Hannover Re. As of the escrow

14. Reinsurance (Continued)

funding requirement date of May 14, 2009, the balance was $1.9 million. As of December 31, 2009, the required escrow balance was reduced to $0 million and all of the funds have been released back to us.

This transaction resulted in a $49.8 million income tax expense due to an increase in our valuation allowance. The increased valuation allowance was because the remaining deferred tax liabilities did not support the full recoverability of our deferred tax assets.

15. Employee Benefit Plans

401(k) Plan

SHI sponsors a 401(k) plan in the U.S. in which employee contributions on a pre-tax basis are supplemented by matching contributions. These contributions are invested, at the election of the employee, in one or more investment portfolios. Expenses for the 401(k) plan amounted to $0.4 million and $1.3 million in the years ended December 31, 2009 and 2008, respectively.

16. Income Taxes

For the years ended December 31, 2009 and 2008, we have income tax (benefit) expense from continuing operations, by jurisdiction, as follows:

(U.S. dollars in thousands)	Year Ended December 31, 2009	Year Ended December 31, 2008
Current tax (benefit) expense:		
U.S.	$ (8,088)	$ -
Ireland	-	-
Other non-U.S.	-	32
Total current tax expense	(8,088)	32
Deferred tax (benefit) expense:		
U.S.	49,838	(9,957)
Ireland	-	(3,107)
Other non-U.S.	7,313	2,895
Total deferred tax benefit	57,151	(10,169)
Total worldwide tax benefit	$ 49,063	$ (10,137)

16. Income Taxes (Continued)

The weighted-average expected tax provision has been calculated using the pre-tax accounting income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. Reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted-average tax rate for the years December 31, 2009 and 2008 is provided below:

(U.S. dollars in thousands)	**Year Ended December 31, 2009**	**Year Ended December 31, 2008**
Pre-tax loss	$ 2,369,930	$ (2,469,955)
Expected tax provision at weighted-average rate	198,439	(559,126)
Change in valuation allowance	(148,529)	566,109
Intercompany note cancellation	-	(6,154)
Other and state taxes	(847)	(10,966)
Total tax benefit	$ 49,063	$ (10,137)

We are not subject to income taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require us to change the way we operate or become subject to taxes. At December 31, 2009 and 2008, we had tax operating loss carry forwards in our U.S. and Irish entities, as presented in the table below.

(U.S. dollars in thousands)	**U.S. Life & Non-Life Groups**	**Irish Operating Company**	**Irish Special Purpose Vehicle**	**Total**
Operating loss carryforwards available at December 31, 2008	$ 357,095	$ 433,475	$ 1,496,139	$ 2,286,709
Operating losses from 2008 attributable to Ballantyne Re			$ 1,496,139	$ 1,496,139
Operating losses accrued during 2009	241,545	90,486	-	332,031
Operating loss carry forwards available at December 31, 2009	$ 598,640	$ 523,961	$ -	$ 1,122,601
Deferred tax asset for operating losses, before valuation allowance, at December 31, 2009	$ 204,770	$ 65,495	$ -	$ 270,265

The operating loss carry forwards in our U.S. entities will expire, if not utilized, in years 2021 through 2029. The operating loss carry forwards in our Irish entities benefit from an unlimited carry forward period. These net operating loss carry forwards resulted primarily from current operations of SRUS, SRLC, SHI, SRD and Orkney Re.

At December 31, 2008, we had an alternative minimum tax credit carry forward of approximately $8.6 million. As a result of new tax legislation in the US, the Company is able to recover the alternative minimum tax related to this credit. Therefore, the alternative minimum tax credit carry forward is currently an income tax recoverable. There are no foreign tax credit carry forwards. In addition, at December 31, 2009, the Company recorded an additional $4.0 million withholding tax liability.

16. Income Taxes (Continued)

During 2009, the Company did not incur or record any applicable deferred tax expense attributable to the undistributed earnings of its subsidiaries. As such, at December 31, 2009, Scottish Re provided deferred taxes, if any, related to all the undistributed earnings of its subsidiaries. Our U.S. subsidiaries are subject to federal, state and local corporate income taxes and other taxes applicable to U.S. corporations. Upon distribution of current or accumulated earnings and profits in the form of dividends or otherwise from our U.S. subsidiaries to us, we would be subject to U.S. withholding taxes at a 30% rate. Significant components of our deferred tax assets and liabilities as of December 31, 2009 and 2008, all of which arise outside of our home country, were as follows:

(U.S. dollars in thousands)	December 31, 2009	December 31, 2008
Deferred tax asset		
Net operating losses	$ 270,265	$ 550,712
Reserves for future policy benefits	-	48,240
Unrealized depreciation on investments/Other than temporary impairments	152,320	227,667
Intangible assets	4,272	5,205
Alternative minimum tax credit	-	8,580
Capital loss carryforwards	2,111	10,543
Surplus note accrual	10,594	7,759
Embedded derivatives	7,623	3,489
Collateral finance facilities costs	5,623	5,565
Other	6,841	11,485
Total deferred tax asset	459,649	879,245
Deferred tax liability		
Deferred acquisition costs	(43,302)	(47,062)
Reserves for future policy benefits	(140,459)	-
Present value of in-force	(13,027)	(13,636)
Other	(1,746)	(2,652)
Total deferred tax liability	(198,534)	(63,350)
Net deferred tax asset before valuation allowance	261,115	815,895
Valuation allowance	(307,336)	(812,194)
Total deferred tax (liability) asset	$ (46,221)	$ 3,701

Certain errors in the 2008 net deferred tax asset inventory balance were corrected, which resulted in an increase to deferred tax asset of $62.0 million, a decrease to deferred tax liability of $14.1 million, and an increase to the valuation allowance of $76.1 million. The error corrections had no impact to the Company's net loss and shareholders' deficit as of December 31, 2008, because the increase in net deferred tax asset was offset by a corresponding increase to the valuation allowance.

At December 31, 2008, we had a valuation allowance of $812.2 million established against our deferred tax assets, after the above mentioned errors were recorded. This amount represents an increase of $76.1 million over the valuation allowance reported in the financial statements as at December 31, 2008, as a result of corrections to the deferred inventory discussed above. 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 decreased by approximately $504.9 million during the year ended December 31, 2009 to $307.3 million. The reasons for the decrease are $366.0 million in respect of the de-consolidation of Ballantyne Re, $129.5 million as a result of the release of reserves due to the sale of the Acquired Business to Hannover Re and $9.4 million as a

16. Income Taxes (Continued)

result of other changes in net deferred tax assets. The de-consolidation of Ballantyne Re did not impact income tax expense because of a corresponding reduction in the net operating losses deferred tax assets. There also were losses generated in the U.S. and Irish entities for which no current period benefit is being recognized.

We have maintained a full valuation allowance against any remaining deferred tax asset in the U.S. and Ireland, given our inability to rely on future taxable income tax projections.

Section 382 Event

The investments made by MassMutual Capital and Cerberus on May 7, 2007 qualified as a change in ownership under Section 382 of the Internal Revenue Code. Section 382 operates to limit the future deduction of net operating losses that were in existence as of the change in ownership. As a result of this limitation, we wrote off $142.6 million in 2007 of net operating losses that we will be unable to utilize prior to expiration with respect to our U.S. entities. Because we had previously established a valuation allowance against these net operating losses, there is not a significant tax expense associated with Section 382 limitations.

FASB ASC Subtopic 740-10, Income Taxes – Overall (formerly FIN 48)

On January 1, 2007, we adopted FASB ASC Subtopic 740-10, Income Taxes – Overall (“FASB ASC 740-10”), which incorporates what was formerly FIN 48. At December 31, 2008, we had total unrecognized tax benefits (excluding interest and penalties) of $166.0 million, the recognition of which would result in a $15.0 million benefit to the effective tax rate. The statute of limitations expired for the 2005 U.S. federal income tax year, which resulted in a reduction of our unrecognized tax benefits in the amount of $21.9 million. At December 31, 2009, we had total unrecognized tax benefits (excluding interest and penalties) of $129.6 million, the recognition of which would result in a $16.0 million benefit at the effective tax rate. The decrease in the total unrecognized tax benefits in 2008 was due to the removal of the Ballantyne Re FASB ASC 740-10 reserve and statute of limitations expiration on some positions. The decrease in the total unrecognized tax benefits in 2009 was due to the statute of limitations expiration on some positions.

The following is a rollforward of our FASB ASC 740-10 unrecognized tax benefits from January 1, 2008 to December 31, 2009:

(U.S. dollars in thousands)	December 31, 2009	December 31, 2008
Total unrecognized tax benefits at beginning of year	$ 165,961	$ 187,142
Gross amount of decreases for prior year’s tax position	(22,000)	(1,882)
Gross amount of increases for current year’s tax position	990	2,646
Reductions due to lapse of statutes of limitation	(15,354)	(21,945)
Total unrecognized tax benefits at end of year	129,597	165,961
Unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate	$ 17,909	$ 15,016

Interest and penalties (not included in the “unrecognized tax benefits” above) are a component of the position for income taxes.

16. Income Taxes (Continued)

(U.S. dollars in thousands)	December 31, 2009	December 31, 2008
Total interest & penalties in the Consolidated Balance Sheets at beginning of year	$ 15,795	$ 13,281
Total interest and penalties in the Consolidated Statements of Income (Loss)	2,220	2,514
Total interest & penalties in the Consolidated Balance Sheets at end of year	$ 18,015	$ 15,795

It is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur in the next 12 months due to tax years closing because the statutes of limitations have expired. The unrecognized tax benefits are expected to decrease by $16.0 million in 2010 as a result of additional statutes of limitations expiring, and, an additional tax liability amount of $35.9 million as a result of an unaffiliated third party U.S. tax court ruling in 2010. For further discussion on this, see Note 21, "Subsequent Events".

We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. As of December 31, 2009, we remained subject to examination in the following major tax jurisdictions for the years indicated below:

Major Tax Jurisdictions	Open Years
U.S.	
Life Group	2006 through 2009
Non-Life Group	2006 through 2009
Ireland	2005 through 2009

17. Commitments and Contingencies

Lease Commitments

We lease office space in the countries in which we conduct business under operating leases that expire at various dates through 2016. Total rent expense with respect to these operating leases for the years ended December 31, 2009 and 2008 was approximately $0.9 million and $2.4 million, respectively.

17. Commitments and Contingencies (Continued)

Future minimum lease payments under the leases are expected to be:

(U.S. dollars in thousands) Year ending December 31,	Gross Lease Payments	Sublease Rentals	Net Lease Payments
2010	$ 1,411	$ (250)	$ 1,161
2011	1,416	(433)	983
2012	1,458	(568)	890
2013	1,256	(585)	671
2014	1,294	(603)	691
Thereafter	2,705	(1,260)	1,445
Total future lease commitments	$ 9,540	$ (3,699)	$ 5,841

The operating lease for our former Denver office was sold as part of the sale of the Acquired Business to Hannover Re in 2009. As at December 31, 2009, we held operating leases for our Charlotte and Dublin offices.

In December 31, 2009, we entered into a new operating lease in Charlotte. The new lease agreement is for three years (through 2012) with the option to renew for a further four years (through 2016). Our lease in the previous Charlotte office remains in place and does not terminate until 2016. We have negotiated two subleases in respect of this property which reduce the associated leasehold commitment for this office. The first sublease is committed through March 2011, and includes extension options but has no renewal obligation. The second sublease commences in January 2010 and expires in 2016. The remainder of the lease commitment on the previous Charlotte office not covered by the subleases is still borne by us and is included in the figures above.

Concentrations of Credit Risk

The creditworthiness of a counter party is evaluated by us, taking into account credit ratings assigned by rating agencies. The credit approval process involves an assessment of factors including, among others, the counterparty, country and industry credit exposure limits. Collateral may be required, at our discretion, on certain transactions based on the creditworthiness of the counterparty.

The areas where significant concentrations of credit risk may exist include amounts recoverable from reinsurers and reinsurance balances receivable (collectively “reinsurance assets”), investments and cash and cash equivalent balances. A credit exposure exists with respect to reinsurance assets as they may become uncollectible. We manage our credit risk in our reinsurance relationships by transacting with reinsurers that we consider financially sound, and if necessary, we may hold collateral in the form of funds, trust accounts and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis.

Indemnification of Our Directors, Officers, Employees and Agents

We indemnify our directors, officers, employees and agents against any action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that they are our director officer, employee or agent, as provided in our articles of association. Since this indemnity generally is not subject to limitation with respect to duration or amount, we do not believe that it is possible to determine the maximum potential amount due under this indemnity in the future.

17. Commitments and Contingencies (Continued)

Parent Company 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.

On October 12, 2006, all of the class actions were consolidated. On December 4, 2006, a consolidated class action complaint was filed.

The consolidated complaint which was brought on behalf of a putative class consisting of investors who purchased SRGL's securities between February 17, 2005 and July 31, 2006, alleged violations of various sections of the Securities Exchange Act of 1934, as amended, including section 10(b), and various rules and sections of the Securities Act of 1933, as amended. The complaint sought an unspecified amount of damages, as well as other forms of relief. SRGL and its former officers and directors named in the complaint reached agreement in principle with the plaintiffs on August 1, 2008 to settle the lawsuit. On September 8, 2008, the court entered an order preliminarily approving the proposed settlement. In connection with the settlement, which formally was approved by the court on December 11, 2008, SRGL contributed $31 million, of which $5.8 million was paid by SRGL on October 7, 2008, and the remaining $25.3 million was paid by SRGL's insurance carriers.

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 SRD in accordance with applicable statutory accounting practices. Management 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 million after giving effect to these corrections.

In addition, management 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 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 MassMutual 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

17. Commitments and Contingencies (Continued)

relevant insurance subsidiary at the respective dates. In light of our discovery of the corrections described above, we have notified MassMutual Capital and Cerberus, 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 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, MassMutual Capital and Cerberus 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 MassMutual Capital and Cerberus, based on changes in the valuation of SRGL using the assumptions and models used by MassMutual Capital and Cerberus at the time of their decision to invest in us. Furthermore, should any claim for indemnification be made by MassMutual Capital and Cerberus, 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, MassMutual Capital and Cerberus requested that we convene a committee of independent directors. No action has since been taken by us or the Investors in respect of this claim. 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 us 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 MassMutual Capital and Cerberus are convertible into our Ordinary Shares.

18. Statutory Requirements and Dividend Restrictions

Statutory Requirements for Non-U.S. Subsidiaries

Our insurance and reinsurance subsidiaries are subject to insurance laws and regulations in the jurisdictions in which they operate which include Bermuda, Cayman, the United States, and Ireland. Certain of these regulations include restrictions that limit the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities. The difference between financial statements prepared for insurance regulatory authorities and statements prepared in accordance with U.S. GAAP vary by jurisdiction; however the primary difference is that financial statements prepared for some insurance regulatory authorities do not reflect DAC, limit the amount of deferred income tax net assets, limit or disallow certain intangible assets and, establishes reserves for invested assets and calculate benefit reserves by defined formulaic process.

Our Bermuda insurance companies are required to maintain a minimum capital of $0.25 million. There are no statutory restrictions on the payment of dividends from retained earnings by any of the Bermuda subsidiaries as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid-in capital of each of the Bermuda subsidiaries.

Under The Insurance Law of the Cayman Islands, SALIC must maintain a minimum net capital worth of $0.24 million. There are no statutory restrictions on the payment of dividends from retained earnings by any of the Cayman subsidiaries as the minimum statutory capital and surplus requirements are satisfied by the share capital and additional paid-in capital of each of the Cayman subsidiaries.

18. Statutory Requirements and Dividend Restrictions (Continued)

SRD is required by the Irish Financial Services Regulatory Authority ("IFSRA") to maintain a minimum level of paid up share capital. IFRSA has put certain restrictions in place on the ability of SRD to make dividend payments from profits available for distribution within the meaning of the Companies (Amendment) Act, 1983. On July 15, 2006, Statutory Instrument 380 of 2006 transposed into Irish law European Union Council Directive 2005/68/EC. The Directive establishes a regulatory regime for reinsurance organizations and defines minimum requirements for certain liabilities, assets backing these liabilities and surplus. As at December 31, 2009, SRD had solvency margin of 232%.

SALIC is a party to a net worth maintenance agreement with SRD, pursuant to which SALIC effectively guarantees SRD's regulatory solvency. In the fourth quarter of 2008, IFSRA notified the Company that corrective action needed to be taken with respect to SRD's solvency calculations primarily as a result of market value degradation in respect of the assets SRD held to support business ceded to it from SRUS and other of its affiliates. In response, the Company effectuated a transfer of a majority of its business in SRD to SALIC, effective October 1, 2008, SALIC, in return received modified coinsurance assets with respect to certain of the ING Business originally ceded to SRD and the residual interests in reserve credit trust assets with respect to business originally ceded from SRUS to SRD. Absent the October 1, 2008 transfer, SALIC's obligations under the net worth maintenance agreement would have been triggered and the Company likely would have needed to seek bankruptcy protection. A significant portion of the business transferred from SRD to SALIC was included in the Acquired Business sold to Hannover Re. In connection with the closing of the transactions contemplated by the Purchase Agreement with Hannover Re, the remaining business at SRD was recaptured from SRD or transferred to SALIC. Effective October 1, 2009, SRD entered into a reinsurance agreement with SRUS pursuant to which SRD has reinsured from SRUS the liabilities related to a certain block of reinsurance business previously ceded by SRUS to SRD prior to the October 1, 2008 transfer.

Statutory Requirements for U.S. Subsidiaries

Our United States subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by the Department. Except as otherwise noted in the statutory financial statements of SRUS, the Department adheres to National Association of Insurance Commissioners (the "NAIC") risk-based capital ("RBC") requirements for Delaware domiciled life and health insurance companies. As of December 31, 2009 and 2008, SRUS, SRLC and Orkney Re exceeded all minimum RBC requirements on a Delaware basis. The maximum amount of dividends that can be paid by SRUS, SRLC and Orkney Re (Delaware domiciled insurance companies) without prior approval of the State Insurance Commissioner (the "Commissioner") is subject to restrictions relating to statutory surplus and operating earnings. The maximum dividend payment that may be made without prior approval is limited to the greater of the net gain from operations for the preceding year or 10% of statutory surplus as of December 31 of the preceding year not exceeding earned surplus. The applicable statutory provisions only permit an insurer to pay a shareholder dividend from unassigned surplus. SRUS, SRLC and Orkney Re cannot pay dividends in 2010 without prior approval of the Commissioner.

The following table presents, for each of our U.S. reinsurance subsidiaries, the statutory capital and surplus as of December 31, 2009 and 2008, and the statutory net earned income (loss) for the years ended December 31, 2009 and 2008. The amounts shown in the table are those reflected in each company's most recent statutory financial statement filings with insurance regulators. The 2008 comparables have been updated to reflect the re-filing of our statutory financial statements in May 2009.

18. Statutory Requirements and Dividend Restrictions (Continued)

	Statutory Capital & Surplus		Statutory Net Earned Income (Loss)	
(U.S. dollars in thousands)	**December 31, 2009**	**December 31, 2008**	**December 31, 2009**	**December 31, 2008**
Scottish Re (U.S.), Inc.	$ 233,684	$ 167,348	$ 123,149	$ (125,301)
Scottish Re Life Corporation	$ 72,808	$ 57,577	$ (4,102)	$ (19,405)
Orkney Re, Inc...............................	$ 912,852	$ 727,890	$ 14,116	$ (185,630)

During 2009, our U.S. reinsurance subsidiaries adopted Statement of Statutory Accounting Principles No. 43 – Revised ("SSAP 43R"). SSAP 43R permitted insurance companies to revise their methodology for recording impairments of structured securities. As a result of adopting SSAP 43R, we recorded an increase to surplus for cumulative effect changes of adoption of accounting principal of $57.7 million, $158.6 million and $11.4 million for SRUS, Orkney Re and SRLC respectively.

The company action level risk based capital percentage at December 31, 2009 as filed with regulators on March 19, 2010 for SRUS, SRLC and Orkney Re was 320%, 257% and 2,094%, respectively. The 2009 U.S. statutory filings are subject to audit and consequently may be subject to further negative or positive adjustments.

All other regulated insurance entities are in excess of their minimum regulatory capital requirements as of December 31, 2009.

SRUS

The statutory financial statements of SRUS are presented on the basis of accounting practices prescribed or permitted by the Department.

The Department recognizes only statutory accounting practices prescribed or permitted by the State for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under Delaware Insurance Law. The AP&P Manual has been adopted as a component of prescribed or permitted practices by the State

The Company historically has obtained credit for reinsurance on its statutory financial statements for reinsurance ceded to each of Orkney Re, and certain of its non-U.S. affiliated reinsurers (each a "Subject Reinsurer" and, collectively, the "Subject Reinsurers") to the extent of the fair market value of eligible securities held in the qualifying reserve credit trust account established by each respective Subject Reinsurer, for the exclusive benefit of the Company pursuant to and in accordance with Delaware Insurance Regulation §1003 (Credit for Reinsurance) (each such eligible security meeting the requirements of subsection 9.1.2 thereof an "Eligible Security", and each such trust account, a "Trust Account").

In connection with the filing of its statutory financial statement for the period ending September 30, 2008, the Company requested and received approval for a permitted practice from the Department related to the reduction from liability for reinsurance ceded to an unauthorized assuming insurer (the "Permitted Practice"). Specifically, the Company has received permission to take as a reduction from liability the reinsurance ceded by the Company to each Subject Reinsurer in an amount up to but not greater than the specific obligations under the reinsurance agreements with such Subject Reinsurer that the respective Trust Account was established to secure, provided that:

18. Statutory Requirements and Dividend Restrictions (Continued)

1. The original book value of all Eligible Securities on deposit in the applicable Trust Account (such book value to be determined at the time such securities were deposited to such Trust Account) is, when combined with any cash on deposit therein, not less than the specific obligations related to such Trust Account; and

2. The current fair market value of cash and Eligible Securities held in the applicable Trust Account is not less than the specific obligations related to such Trust Account calculated using the Commissioners Standard Ordinary mortality basis (2001 CSO) for new issues (promulgated under Delaware Insurance Regulation §1213 and effective for use in the State as of January 1, 2004); and

3. The appointed actuary opines that sufficient experience exists to demonstrate that such 2001 CSO mortality basis provides reasonable margin relative to experience.

In the event any one or more of the foregoing conditions (each a “Condition”) is not met, the reduction from liability for reinsurance ceded by the Company to the applicable Subject Reinsurer will be reduced by an amount equal to the absolute value of the shortfall resulting from application of the specific Condition failing to be met (or if more than one Condition is not met, application of the specific Condition that results in the greatest shortfall).

On February 17, 2009, citing, among other things, then current economic conditions and the uncertainty of the conditions that lay ahead, the Commissioner issued an emergency order amending Delaware Insurance Regulation §1215 relating to Recognition of Preferred Mortality Tables for use in Determining Minimum Reserve Liabilities (the “Preferred Mortality Table Emergency Regulation”) and an emergency order amending Delaware Insurance Regulation §1212 relating to Valuation of Life Insurance Policies (the “X-Factor Emergency Regulation”, and together with the Preferred Mortality Table Regulation, the “Emergency Regulations”). Generally, the Preferred Mortality Table Emergency Regulation allows, upon receipt of the Commissioner’s approval, use of the 2001 CSO Preferred Class Structure Mortality Table as the minimum valuation standard for policies issued after January 1, 2004. In connection with the Preferred Mortality Table Emergency Regulation, the Company sought and, on February 26, 2009, obtained the Department’s approval for use of the 2001 CSO Preferred Class Structure Mortality Table in accordance with such Emergency Regulation. The X-Factor Emergency Regulation relaxes existing constraints related to the X-factor assumptions used in the calculation of statutory reserves.

The Emergency Regulations by their terms became effective for valuations on and after December 31, 2008. The Emergency Regulations were adopted into law pursuant to the Delaware Administrative Procedures Act on September 1, 2009. Similar regulations were adopted by the NAIC during the 2009 Fall National Meeting and as such, the Emergency Regulations no longer are considered a prescribed practice.

A reconciliation of net income (loss) and capital and surplus per the Permitted Practice and Prescribed Practice (Emergency Regulation) and NAIC prescribed reserving as of December 31, 2009 and December 31, 2008 follows:

	December 31, 2009	
(U.S. dollars in thousands)	**Statutory Net Earned Income (Loss)**	**Statutory Capital & Surplus**
Financial statements - Delaware basis	$ 123,149	$ 233,684
Permitted increase in reserve credit	-	(152,568)
Financial statements – NAIC basis	$ 123,149	$ 81,116

18. Statutory Requirements and Dividend Restrictions (Continued)

	December 31, 2008	
(U.S. dollars in thousands)	**Statutory Net Earned Income (Loss)**	**Statutory Capital & Surplus**
Financial statements - Delaware basis	$ (125,301)	$ 167,348
Permitted increase in reserve credit	-	(197,206)
Permitted mortality table..........................	-	(43,206)
Prescribed increase in reserve credit	-	(146,662)
Financial statements – NAIC basis	$ (125,301)	$ (219,726)

SRLC

SRLC did not utilize any permitted or prescribed practices during and as of the years ended December 31, 2009 and 2008.

Orkney Re

Orkney Re is a Special Purpose Captive Insurance Company under the laws of the State of Delaware. Pursuant to its Certificate of Authority issued by the Department, Orkney Re establishes and maintains its reserves in accordance with U.S. GAAP rather than the statutory reserves prescribed by the NAIC Accounting Practices and Procedures Manual.

A reconciliation of net income and capital and surplus per the permitted practice established by the Certificate of Authority and NAIC prescribed reserving as of December 31, 2009 and 2008 follows:

	December 31, 2009	
(U.S. dollars in thousands)	**Statutory Net Earned Income (Loss)**	**Statutory Capital & Surplus**
Financial statements - Delaware basis	$ 14,116	$ 912,852
Permitted valuation basis adjustment.......	(57,940)	(890,898)
Financial statements – NAIC basis	$ (43,824)	$ 21,954

	December 31, 2008	
(U.S. dollars in thousands)	**Statutory Net Earned Income (Loss)**	**Statutory Capital & Surplus**
Financial statements - Delaware basis	$ (185,630)	$ 727,890
Permitted valuation basis adjustment.......	(81,903)	(832,957)
Financial statements – NAIC basis	$ (267,533)	$ (105,067)

19. Related Party Transactions

SRGL and Scottish Re

The amount due from/to related party represents amounts owed from/to SRGL and Scottish Re. On September 20, 2009, the Company entered into a revolving credit agreement with SRGL to provide the parent with credit up to a limit of $90 million. Interest on amounts borrowed by the parent is charged at a rate stipulated for 30 day commercial paper. As at December 31, 2009, SRGL had borrowed $24.5 million from the Company. The remaining amounts owed from/to Scottish Re that are outstanding are unsecured, interest-free and generally settled on a quarterly basis. These amounts are predominantly concerned with intercompany transactions with Scottish Re, including general advances, net worth maintenance and service fees, and reinsurance business retroceded by the SRUS to Orkney Re II plc, a special purpose vehicle consolidated by Scottish Re.

We and our operating subsidiaries are supported by net worth maintenance agreements that require the Company and Scottish Re to provide appropriate capital and liquidity to each operating subsidiary as required by regulators, rating agencies or creditors. In exchange, each operating subsidiary pays a net worth maintenance fee to the Company and Scottish Re. Net worth maintenance fees, investment management fees and corporate management fees charged by Scottish Re amounted to $13.1 million and $69.6 million in 2009 and 2008, respectively.

The Company and its subsidiaries carry out administrative and accounting responsibilities for the parent and other affiliated companies and charged service fees of $3.1 million and $10.5 million in 2009 and 2008, respectively. These amounts are netted against operating expenses in the Consolidated Statements of Income (Loss).

Orkney II

On December 21, 2005, Orkney II, an orphan special purpose vehicle incorporated under the laws of Ireland whose issued ordinary shares are held by a share trustee and its nominees in trust for charitable purposes, issued in a private offering $450.0 million of debt to external investors.

Orkney II has been consolidated in the financial statements of SRGL; however, in accordance with FIN 46R, we are not considered to be the primary beneficiary and as a result, we are not required to consolidate Orkney II. Concurrent with the offering to external investors, Orkney II issued to the Company $5.0 million Series B Floating Rate Notes due December 31, 2035 (the “Series B Notes”) and $30.0 million Series C Floating Rate Notes due December 31, 2036 (the “Series C Notes” and, together with the Series B Notes [and the notes issues to external investors, the “Orkney II Notes”). Interest on the principal amount of the Series B Notes is payable quarterly at a rate equivalent to three-month LIBOR plus 3.0%. At December 31, 2009, the interest rate on the Series B Notes was 3.27% (compared to 5.29% at December 31, 2008). The Series B Notes are listed on the Irish Stock Exchange. Proceeds from this offering were used to fund the Regulation XXX reserve requirements for a defined block of level premium term life insurance policies issued between January 1, 2004 and December 31, 2004 reinsured by SRUS to Orkney II. Proceeds from the Orkney II Notes have been deposited into a series of trusts that in part collateralize the notes. As part of the reinsurance agreement between Orkney II and SRUS, SRUS retrocedes $118.9 million of reserves (2008 - $111.3 million), which is recorded as a component of “Amount recoverable from reinsurers”. In addition, SRUS recorded a payable to Orkney II of $8.8 million for premiums due, net of claims (2008 - $6.5 million), which is recorded as a component of “Reinsurance balances and risk fees receivable”.

Also during 2008, due to continued market value decline in the Orkney II investment portfolio and the subsequent effect on its ability to repay the lower tranches of debt, the Company recognized an other-than-temporary impairment charge to write off its $5 million investment in the Series B Notes.

19. Related-Party Transactions (Continued)

On the scheduled interest payment date on May 11, 2009, Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes. Failure to make such payments in full when due constitutes an event of default under the Orkney Re II indenture ("Orkney EOD"). Assured, in its capacity as financial guarantor of the Series A-1 Notes, made guarantee payments on the Series A-1 Notes in the amount of $1.2 million. As a result of the Orkney EOD, Assured obtained, and will continue to have, certain enhanced contractual rights under the transaction documents and additional fees will be accrued for the guarantee coverage.

Among Assured's enhanced contractual rights are (a) the right to instruct the trustee to declare the principal of and the interest on all the Notes to be due and payable immediately and (b) the right to foreclose upon the Collateral (as defined in the related indenture). On June 1, 2009, Assured instructed the trustee to accelerate the Notes and the trustee delivered a notice of acceleration to Orkney Re II on June 18, 2009. On June 19, 2009, Assured notified Orkney Re II and the trustee that it was electing to foreclose upon the Collateral.

Following these actions, on June 26, 2009, SRUS exercised its contractual right under its agreements with Orkney Re II to withdraw all assets from the reserve credit trust established by Orkney Re II for the benefit of SRUS. The withdrawn assets were deposited into SRUS segregated accounts pursuant to the terms of the reinsurance agreement between SRUS and Orkney Re II (the "Orkney Re II Reinsurance Agreement") where they are held in order to provide reserve credit to SRUS for the reinsurance liabilities that continue to be ceded to Orkney Re II and for certain other permissible uses under the Orkney Re II Reinsurance Agreement.

The transfer of assets resulted in the company recording a liability to Orkney Re II as a "Funds withheld from reinsurer" in the Consolidated Balance Sheets, and also recording an embedded derivative, as discussed in Note 2, 'Summary of Significant Accounting Policies".

MassMutual Capital and Cerberus

In connection with the May 2007 transaction with MassMutual Capital and Cerberus, MassMutual Capital and Cerberus hold in the aggregate approximately 68.7% of SRGL's equity voting power at December 31, 2008, along with the right to designate two-thirds of the members of SRGL's Board.

For the years ended December 31, 2009 and 2008, we had premiums earned of $15.1 million and $118.1 million, respectively, with MassMutual Capital. As at December 31, 2009, we had a net payable to MassMutual Capital of $9.6 million (2008 - $5.7 million).

We also incurred $0.4 million and $0.2 million for investment management fees payable to Babson Capital Management LLC, a subsidiary of MassMutual Capital, for the years ended December 31, 2009 and 2008, respectively. The investment management fees incurred in 2008 related to assets held in Clearwater Re. The investment management fees for 2009 relate to the appointment, in the fourth quarter of 2009, of Babson Capital Management LLC as investment manager for all our invested assets, excluding investments held in securitization structures and certain company directed investments.

We have been informed by Cerberus that an affiliate of Cerberus acquired from one or more unaffiliated third parties $700 million in aggregate principal amount of the Orkney Notes in 2009. None of the Company, Orkney I, Orkney Re or any of our other subsidiaries were a party to this purchase. No terms of the Orkney Notes or any of the underlying transaction documents were changed as a result of this purchase.

19. Related-Party Transactions (Continued)

Cypress Entities

Pursuant to the Registration Rights and Shareholders Agreement executed among SRGL, MassMutual, Cerberus and Cypress, for as long as the Cypress Entities in the aggregate beneficially own at least 2.5% of SRGL's outstanding voting shares on a fully diluted basis, they will be entitled to designate at least one individual for election to the Board. The Cypress Entities owned collectively 4.3% of SRGL's outstanding voting shares on a fully diluted basis as at December 31, 2009 and 2008.

Included in Other Investments are $3.7 million and $4.7 million at December 31, 2009 and 2008 respectively, for Investment in Cypress Sharpridge Investments, Inc., which is an affiliate of the Cypress Entities. During the year ended December 31, 2009 and 2008, we received $0.7 million and $0.4 million in dividend income from our investment in Cypress Sharpridge.

20. Discontinued Operations

Disposal of Wealth Management Business

On July 11, 2008, the sale of the Wealth Management business closed with respect to Scottish Annuity & Life Insurance Company (Bermuda) Ltd. and Scottish Annuity & Life International Insurance Company (Bermuda) Ltd. We generated proceeds of $4.4 million and recognized a net loss of $4.6 million on this sale.

Disposal of Life Reinsurance International Segment

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 from Scottish Re for $67.1 million after purchase price adjustments of $4.1 million. $26.8 million after purchase price adjustments of $8.0 million is included in SALIC as a result of the novation of treaties in SALIC and recapture of treaties in SRD. The purchase of the Asia portion of the Life Reinsurance International Segment was completed on August 20, 2008, for an additional payment by Pacific Life Insurance Company of $0.5 million. Scottish Re recorded an aggregate loss of $31 million on these transactions in 2008, of which an aggregate gain of $28.3 million is included in SALIC. In March 2009, the Singapore branch was closed and $6.1 million of capital was returned to SALIC.

20. Discontinued Operations (Continued)

The following table presents the assets and liabilities held for sale for the Wealth Management business as of December 31, 2007:

(U.S. dollars in thousands)	As of December 31, 2007
Fixed maturity investments, trading at fair value	$ 12,252
Cash and cash equivalents	21,339
Total investments	33,591
Accrued interest receivable	94
Reinsurance balances and risk fees receivable	94,053
Deferred acquisition costs	23,767
Amount recoverable from reinsurers	563
Other assets	345
Current income tax receivable	104
Deferred tax asset	1,712
Segregated assets	419,275
Total assets held for sale	$ 573,504
Reserves for future policy benefits	$ 85,610
Accounts payable and other liabilities	1,361
Current income tax payable	379
Segregated liabilities	419,275
Total liabilities held for sale	$ 506,625

The above activity affected the 2008 consolidated financial statements. There are no discontinued operations to report in 2009.

21. Subsequent Events

The subsequent events disclosed in these notes to the consolidated financial statements have been evaluated by Company management up to and including the filing of the financial statements on June 1, 2010.

Deferral of Interest Payments on Floating Rate Capital Securities and Trust Preferred Securities

Subsequent to December 31, 2009, we have accrued and deferred payment of an additional $1.6 million of interest on our floating rate capital securities and trust preferred securities. As of June 1, 2010, we have accrued and deferred payment on a total of $7.6 million of interest.

Stingray

Subsequent to December 31, 2009, we acquired in a privately negotiated transaction an additional $18.1 million of aggregate stated amount of Pass-Through Certificates. As of June 1, 2010, $80.2 million in aggregate stated amount of Pass-Through Certificates were held by third party Holders. This transaction will not result in an additional gain or loss on the consolidation of funding arrangement.

21. Subsequent Events (Continued)

Orkney Re

As discussed in Note 10, "Collateral Finance Facilities and Securitization Structures-*Orkney Re, Inc. Notices of Default*", on September 21, 2009, MBIA served a notice of default under the restructuring agreement to Orkney Re, Orkney I and SRUS. Such alleged default, because not cured within five (5) business days of such notice, constituted an event of default under the Orkney Insurance Agreement. As of the date hereof, the parties are in the process of negotiating a settlement agreement related to such event of default.

On February 22, 2010, MBIA served Orkney Re, Orkney I and SRUS with notices of default under each of the Orkney I indenture and the Orkney Insurance Agreement, alleging failure by the parties to provide certain required financial statements and other documents required to be delivered under these transaction documents. SRUS subsequently caused such documents to be delivered within the applicable cure periods and, as of the date hereof, there is no event of default resulting from such notices of default.

Income Taxes

As a result of a recent U.S. tax court ruling relating to an unaffiliated third party (Container Corporation v. Commissioner, 134 T.C. 5 (2010)), we have reconsidered our position in respect of an uncertain tax position and evaluated the implications of the ruling in accordance with FASB ASC 740-10. We have concluded that we will release a tax liability of $35.9 million in the first quarter of 2010. The release will occur in the first quarter of 2010 because the *Container Corporation* ruling had not occurred at December 31, 2009.