SCOTTISH RE GROUP LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2008

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Report of Independent Auditors

The Board of Directors and Shareholders of Scottish Re Group Limited

We have audited the accompanying consolidated balance sheets of Scottish Re Group Limited and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive loss, shareholders' (deficit) equity, and cash flows for each of the three years in the period ended December 31, 2008. 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 Re Group Limited and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Scottish Re Group Limited will continue as a going concern. As more fully described in Note 2, the Company's primary operating subsidiary is operating its business in run-off under an Order of Supervision with the Delaware Department of Insurance and the Company has reported a net loss for the year ended December 31, 2008 and has a shareholders' deficit at December 31, 2008. These conditions raise 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 2008 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.

As discussed in Note 2 to the financial statements, in 2007 the Company adopted FASB Interpretation No. 48 related to accounting for uncertainty in income taxes.

/s/ Ernst & Young LLP

Charlotte, North Carolina
April 28, 2009

SCOTTISH RE GROUP LIMITED
CONSOLIDATED BALANCE SHEETS
(Expressed in Thousands of United States Dollars, Except Share Data)

	December 31, 2008	December 31, 2007
ASSETS		
Fixed maturity investments, trading at fair value (2007 - available for sale at fair value, amortized cost $7,394,615)	$ 3,781,104	$ 7,432,118
Preferred stock, trading at fair value (2007 - available for sale at fair value, cost $88,914)	79,767	88,973
Cash and cash equivalents	824,613	754,253
Other investments	22,772	62,658
Funds withheld at interest	1,748,768	1,597,404
Total investments	6,457,024	9,935,406
Accrued interest receivable	35,473	54,590
Reinsurance balances and risk fees receivable	353,579	359,259
Deferred acquisition costs	375,475	581,131
Amount recoverable from reinsurers	711,576	533,018
Present value of in-force business	40,105	41,859
Other assets	41,750	129,759
Current income tax receivable	8,811	10,965
Deferred tax asset	3,061	4,943
Assets held for sale	-	1,170,133
Total assets	$ 8,026,854	$ 12,821,063
LIABILITIES		
Reserves for future policy benefits	$ 4,011,053	$ 3,845,789
Interest sensitive contract liabilities	2,025,554	2,560,785
Collateral finance facilities	3,000,000	3,980,379
Accounts payable and other liabilities	459,792	273,026
Reinsurance balances payable	248,065	137,935
Deferred tax liability	221	165
Long term debt	129,500	129,500
Liabilities held for sale	-	981,875
Total liabilities	9,874,185	11,909,454
MINORITY INTEREST	6,966	9,025
MEZZANINE EQUITY		
Convertible cumulative participating preferred shares, (liquidation preference, $672.3 million)	555,857	555,857
Total mezzanine equity	555,857	555,857
Commitments and contingencies (Note 21)		
SHAREHOLDERS' (DEFICIT) EQUITY		
Ordinary shares, par value $0.01: Issued 68,383,370 shares (2007 – 68,383,370)	684	684
Non-cumulative Perpetual Preferred Shares, par value $0.01: Issued: 5,000,000 shares (2007 – 5,000,000)	125,000	125,000
Additional paid-in capital	1,216,878	1,214,886
Accumulated other comprehensive income	-	48,556
Retained deficit	(3,752,716)	(1,042,399)
Total shareholders' (deficit) equity	(2,410,154)	346,727
Total liabilities, minority interest, mezzanine equity and shareholders' (deficit) equity	$ 8,026,854	$ 12,821,063

See Accompanying Notes to Consolidated Financial Statements

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in Thousands of United States Dollars, Except Share Data)

	Year Ended		
	December 31, 2008	**December 31, 2007**	**December 31, 2006**
Revenues			
Premiums earned, net	$ 1,651,106	$ 1,773,388	$ 1,719,239
Fee and other income	8,803	14,917	11,351
Investment income, net	377,304	586,329	591,986
Net realized and unrealized losses	(1,895,895)	(972,920)	(15,494)
Gain on extinguishment of third party debt	19,437	20,043	-
Change in value of embedded derivatives, net	(216,041)	(43,627)	(16,197)
Total revenues	(55,286)	1,378,130	2,290,885
Benefits and expenses			
Claims and other policy benefits	1,579,412	1,473,563	1,468,346
Interest credited to interest sensitive contracts	75,581	135,366	172,967
Acquisition costs and other insurance expenses, net	559,933	359,761	365,604
Operating expenses	137,981	128,198	119,552
Collateral finance facilities expense	257,912	289,098	215,791
Interest expense	9,902	18,161	23,139
Total benefits and expenses	2,620,721	2,404,147	2,365,399
Loss before income taxes and minority interest	(2,676,007)	(1,026,017)	(74,514)
Income tax benefit (expense)	6,836	157,259	(231,335)
Loss before minority interest	(2,669,171)	(868,758)	(305,849)
Minority interest	1,855	(661)	1,368
Loss from continuing operations	(2,667,316)	(869,419)	(304,481)
Loss from discontinued operations, net of taxes	(43,001)	(26,323)	(62,233)
Net loss	(2,710,317)	(895,742)	(366,714)
Dividend declared on non-cumulative perpetual preferred shares	-	(9,062)	(9,062)
Deemed dividend on beneficial conversion feature related to convertible cumulative participating preferred shares	-	(120,750)	-
Imputed dividend on prepaid variable share forward contract	-	-	(881)
Net loss attributable to ordinary shareholders	$ (2,710,317)	$ (1,025,554)	$ (376,657)
Basic and diluted loss per ordinary share:			
Loss from continuing operations	$ (39.00)	$ (12.92)	$ (5.42)
Loss from discontinued operations	$ (0.63)	$ (0.39)	$ (1.11)
Net loss	$ (39.63)	$ (13.31)	$ (6.53)
Net loss attributable to ordinary shareholders	$ (39.63)	$ (15.24)	$ (6.70)
Dividends declared per ordinary share	$ -	$ -	$ -
Weighted average number of ordinary shares outstanding – basic and diluted	68,383,370	67,303,066	56,182,222

See Accompanying Notes to Consolidated Financial Statements

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Thousands of United States Dollars)

	Year Ended		
	December 31, 2008	**December 31, 2007**	**December 31, 2006**
Net loss	$ (2,710,317)	$ (895,742)	$ (366,714)
Other comprehensive (loss) income:			
Unrealized depreciation on investments	-	(739,807)	(18,055)
Reclassification adjustment for net realized and unrealized gains (losses) included in net loss	(26,310)	785,741	16,310
Net unrealized appreciation (depreciation) on investments, net of income taxes, deferred acquisition costs and minority interest of $12,140, $(32,111) and $4,124	(26,310)	45,934	(1,745)
Cumulative translation adjustment	(24,590)	1,764	14,938
Benefit plans	2,344	518	-
Other comprehensive (loss) income	(48,556)	48,216	13,193
Comprehensive loss	$ (2,758,873)	$ (847,526)	$ (353,521)

See Accompanying Notes to Consolidated Financial Statements

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT) EQUITY
(Expressed in Thousands of United States Dollars)

	Year Ended		
	December 31, 2008	**December 31, 2007**	**December 31, 2006**
Share capital:			
Ordinary shares:			
Beginning of period	$ 684	$ 606	$ 534
Issuance to holders of HyCUs on conversion of purchase contracts	-	74	-
Issuance to holders of restricted stock awards	-	4	-
Issuance to employees on exercise of options	-	-	6
Ordinary shares issued	-	-	66
End of period	684	684	606
Non-cumulative Perpetual Preferred Shares:			
Beginning and end of period	125,000	125,000	125,000
Additional paid-in capital:			
Beginning of period	1,214,886	1,050,860	893,767
Option and restricted stock unit expense	1,992	20,067	2,586
Issuance to holders of HyCUs on conversion of purchase contracts	-	143,675	-
Beneficial conversion feature related to convertible cumulative participating preferred shares	-	120,750	-
Accretion of beneficial conversion feature related to convertible cumulative participating preferred shares	-	(120,750)	-
Ordinary shares issued, net of issuance costs	-	-	147,318
Issuance to employees on exercise of options	-	-	6,795
Other	-	284	394
End of period	1,216,878	1,214,886	1,050,860
Accumulated other comprehensive income:			
Unrealized appreciation (depreciation) on investments net of income taxes, deferred acquisition costs and minority interest			
Beginning of period	26,310	(19,624)	(17,879)
Change in period	(26,310)	45,934	(1,745)
End of period	-	26,310	(19,624)
Cumulative translation adjustment			
Beginning of period	24,590	22,826	7,888
Change in period (net of tax)	(24,590)	1,764	14,938
End of period	-	24,590	22,826
Benefit plans			
Beginning of period	(2,344)	(2,862)	-
Change in period (net of tax)	2,344	518	(2,862)
End of period	-	(2,344)	(2,862)
Total accumulated other comprehensive income	-	48,556	340
Retained deficit:			
Beginning of period	(1,042,399)	(119,614)	262,402
Adoption of FIN 48 on January 1, 2007	-	(17,981)	-
Net loss	(2,710,317)	(895,742)	(366,714)
Dividends declared on Non-cumulative Perpetual Preferred Shares	-	(9,062)	(9,062)
Dividends declared on ordinary shares	-	-	(5,359)
Imputed dividend on prepaid variable share forward contract	-	-	(881)
End of period	(3,752,716)	(1,042,399)	(119,614)
Total shareholders' (deficit) equity	$ (2,410,154)	$ 346,727	$ 1,057,192

See Accompanying Notes to Consolidated Financial Statements

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Thousands of United States Dollars)

	Year Ended		
	December 31, 2008	December 31, 2007	December 31, 2006
Operating activities			
Net loss	$ (2,710,317)	$ (895,742)	$ (366,714)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Net realized and unrealized losses	1,894,033	979,343	27,405
Gain on extinguishment of third party debt	(19,437)	(20,043)	-
Changes in value of embedded derivatives, net	216,041	43,627	16,197
Amortization of discount on fixed maturity investments and preferred stock	281	13,021	15,903
Amortization and impairments of deferred acquisition costs	209,577	76,493	109,473
Amortization and impairments of present value of in-force business	5,455	3,219	5,964
Amortization and impairments of deferred transaction costs	49,170	13,309	9,584
Depreciation of fixed assets	7,989	11,045	12,718
Option and restricted stock unit expense	1,992	20,067	2,586
Minority interest	(1,855)	661	(1,368)
Goodwill impairment	-	-	34,125
Changes in assets and liabilities:			
Accrued interest receivable	22,335	(101)	(12,129)
Reinsurance balances and risk fees receivable	197,213	(65,266)	26,708
Deferred acquisition costs	41,155	(87,214)	(125,937)
Deferred tax asset and liability	10,478	(192,697)	228,024
Other assets	18,944	25,941	(103,806)
Current income tax receivable and payable	2,258	(10,874)	(9,337)
Reserves for future policy benefits, net of amounts recoverable from reinsurers	(209,887)	325,780	199,555
Funds withheld at interest	(151,432)	344,743	655,337
Interest sensitive contract liabilities	(41,504)	(231,791)	(325,907)
Accounts payable and other liabilities	(41,595)	57,301	85,000
Net cash (used in) provided by operating activities	(499,106)	410,822	483,381
Investing activities			
Purchase of fixed maturity investments	(316,809)	(1,331,162)	(4,482,054)
Proceeds from sales of fixed maturity investments	1,663,232	270,403	1,159,659
Proceeds from maturity and return of capital of fixed maturity investments	588,154	596,040	512,719
Purchase of preferred stock	(2,285)	-	(10,298)
Proceeds from sale and maturity of preferred stock	3,167	19,878	26,431
Purchase of and proceeds from other investments, net	36,401	(344)	(8,215)
Proceeds from sale (purchase) of fixed assets	4,117	(2,764)	(18,644)
Net cash provided by (used in) investing activities	1,975,977	(447,949)	(2,820,402)
Financing activities			
Deposits to interest sensitive contract liabilities	1,033	2,382	154,569
Withdrawals from interest sensitive contract liabilities	(837,934)	(289,798)	(676,028)
Proceeds from issuance of convertible cumulative participating preferred shares	-	555,857	-
Proceeds from issuance to holders of HyCUs on conversion of purchase contracts	-	7,338	-
Redemption of convertible preferred shares	-	(7,338)	-
Dividends paid on redemption of convertible preferred shares	-	(222)	-
Proceeds from collateral finance facilities	-	411,471	1,771,754
Payments on collateral finance facilities	(960,942)	(168,484)	-
Proceeds from (repayment on) drawdown of Stingray facility	325,000	(265,000)	265,000
Proceeds from issuance of ordinary shares	-	78	153,698
Dividends paid on Non-cumulative Perpetual Preferred Shares	(2,266)	(9,062)	(9,062)
Repayment of long term debt	-	-	(115,000)
Dividends paid on ordinary shares	-	-	(5,359)

Net cash (used in) provided by financing activities	(1,475,109)	237,222	1,539,572
Net change in cash and cash equivalents	1,762	200,095	(797,449)
Cash and cash equivalents, beginning of period	822,851	622,756	1,420,205
Cash and cash equivalents, end of period	$ 824,613	$ 822,851	$ 622,756
Interest paid	$ 28,350	$ 2,998	$ 9,908
Taxes (refunded) paid	$ (4,815)	$ 16,095	$ 1,774

See Accompanying Notes to Consolidated Financial Statements

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

1. Organization and Business

Organization

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

Change in Strategic Focus

We have faced a number of significant challenges over the past several years which has required us to change our strategic focus as previously disclosed. These challenges have included:

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

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

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

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

These strategies materially impacted the conduct of our business going forward. In particular, we ceased writing new business, notified our existing clients that we would not be accepting any new reinsurance risks under existing treaties and thereby placing our remaining treaties into run-off. To facilitate an orderly run-off of these

treaties, we have taken steps to reduce expenses, including reducing staffing levels, and have taken the following actions:

- On March 31, 2008, we entered into a binding letter of intent (the "March 31 LOI") with ING North America Insurance Corporation ("ING NA Corp."), ING America Insurance Holdings, Inc. ("ING NA Inc." and, together with ING NA Corp., "ING"), Security Life of Denver Insurance Company ("SLD") and Security Life of Denver International Limited ("SLDI" and, together with SLD, the "ING Companies"). Under the March 31 LOI, SLD consented to the recapture (the "First Quarter Recapture"), as of March 31, 2008, of a pro-rata portion of the business that had been ceded by Scottish Re (U.S.), Inc. ("SRUS") to Ballantyne Re plc ("Ballantyne Re") for the purpose of collateralizing the statutory reserve requirements of the Valuation of Life Insurance Policies Model Regulation XXX ("Regulation XXX") 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, the "Ballantyne Business"). On May 6, 2008, we completed this transaction and recaptured approximately 30% 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 consideration from SRUS to SLD, and then ceded the recaptured business to SLDI, which ceded the recaptured business to Scottish Re Life (Bermuda) Limited ("SRLB"). The business was in turn retroceded to Scottish Re (Dublin) Limited ("SRD"). In connection with this transaction, we recorded a pre-tax net loss of $0.2 million related to the consent fees paid.

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

- On June 30, 2008, we entered into a binding letter of intent with the ING Companies (the "June 30th LOI"). The June 30th LOI related to the business that SRUS ceded to Ballantyne Re for the purpose of collateralizing the Regulation XXX reserve requirements for the Ballantyne Business. Pursuant to the June 30th LOI, SLD consented to the recapture (the "Second Quarter 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 consideration from SRUS to SLD, and then ceded the recaptured business to SLDI, which ceded the recaptured business to SRLB. The business was in turn retroceded to Scottish Annuity & Life Insurance Company (Cayman) Ltd. ("SALIC"). There was no net income impact related to this transaction.

- On July 11, 2008, we completed the sale of our Wealth Management business and related entities with respect to Scottish Annuity & Life Insurance Company (Bermuda) Ltd. and Scottish Annuity & Life International Insurance Company (Bermuda) Ltd., and on August 5, 2008, we completed the sale with respect to The Scottish Annuity Company (Cayman) Ltd. The sale of our Wealth Management business generated proceeds of $9.3 million and resulted in a net loss of $4.9 million.

- On July 18, 2008, Pacific Life Insurance Company ("Pacific Life") concluded the purchase of Scottish Re Holdings Limited and the U.K. portion of the Life Reinsurance International Segment for $67.1 million after purchase price adjustments of $4.1 million. The purchase of the Asia portion of the Life Reinsurance International Segment was completed on August 20, 2008, for an additional payment by Pacific Life of $0.5 million. We recorded an aggregate loss of $31 million on these transactions in 2008. In March 2009, the Singapore branch was closed and $6.1 million of capital was returned to SALIC.

- In connection with our Clearwater Re Limited ("Clearwater Re") collateral finance facility, on August 29, 2008, we completed a full recapture, effective as of July 1, 2008, of the business ceded from SRUS to

Clearwater Re and immediately retroceded the recaptured business, also effective as of July 1, 2008, from SRUS to an unaffiliated third party reinsurer, which in turn was retroceded to Hannover Life Reassurance (Ireland) Limited ("Hannover (Ireland)"). In connection with the recapture transaction, the bank counterparties to the Clearwater Re collateral finance facility were repaid in full, thereby removing the related forbearance agreement. We also paid a $4 million fee to the bank-counterparties and the facility, and the related forbearance agreement and its terms, were terminated. Effective September 30, 2008, SRUS retroceded the remaining portion of the related 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). On a consolidated basis, the Clearwater Re transactions and the retrocession of the remaining portion of the business originally held by SRUS resulted in a reduction of total assets and total liabilities of $623.8 million and $504.3 million, respectively, resulting in a pre-tax loss of $119.5 million during the period ended September 30, 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, both of which are recorded in Acquisition costs and other insurance expenses, net. See Note 11, "Collateral Finance Facilities and Securitization Structures."

- On September 30, 2008, we entered into a binding letter of intent (the "September 30th LOI") with the ING Companies and ING. Pursuant to the September 30th LOI, SLD consented to the recapture by SRUS, effective as of September 30, 2008 (the "Third Quarter Recapture"), 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 reserve requirements for the Ballantyne Business. On November 12, 2008, we effectuated the Third Quarter Recapture, which comprised approximately 6.5% of the Ballantyne Business. Immediately following the Third Quarter Recapture, and effective as of September 30, 2008, SLD recaptured the recaptured business from SRUS and ceded it to SLDI, which in turn immediately retroceded it to SRLB which in turn immediately retroceded it to SALIC. There was no net income impact related to this transaction.

- 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 our collateral finance facility with HSBC Bank ("HSBC II"). In connection with the unwind transactions, HSBC was repaid in full, together with a payment of a $6 million fee pursuant to the related forbearance agreement, and the facility and the forbearance agreement and its terms were terminated. Both the unwind and the related loss were recorded as components of fourth quarter 2008 results as the unwind was not fully effectuated until October 2008. A pre-tax loss of $10.3 million was recognized on this transaction primarily related to forbearance costs. See Note 11, "Collateral Finance Facilities and Securitization Structures."

- 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 to SLD its existing reinsurance agreement with Ballantyne Re (pursuant to which SRUS retroceded to Ballantyne Re the Ballantyne Business) (the "Pre-Assignment Reinsurance Agreement") and its existing reinsurance trust agreement with Ballantyne Re, (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. There was no net income impact related to this transaction.

- Effective December 31, 2008, the ING Companies recaptured, on a pro-rata basis, 11.4% of the original Ballantyne Business (the "Fourth Quarter Recapture"). Immediately following the Fourth Quarter 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. There was no net income impact related to this transaction. See Note 24, "Subsequent Events" for further discussion

related to the assumption of the business recaptured in connection with the First, Second, Third and Fourth Quarter Recaptures.

- Additionally, the fair value of the securities in certain qualifying reserve credit trust accounts has declined significantly such that, absent a permitted statutory accounting practice, SRUS would have been forced to take credit on its statutory financial statements for less than the full amount of the related obligations reinsured by SRUS to Orkney Re, Inc. ("Orkney Re"), Orkney Re II and SALIC. This shortfall in reserve credit would have placed significant financial stress upon the statutory capital position of SRUS and, in turn, the solvency of SALIC and SRGL. As a result, SRUS requested and received approval from the Delaware Department of Insurance (the "Department") for a permitted accounting practice (the "Permitted Practice"), as of September 30, 2008, related to the Orkney Re and Orkney Re II securitizations as well as the reserve credit trusts with respect to reinsurance ceded to SALIC. The Permitted Practice relieved SRUS' need to receive, and SALIC's corresponding obligation to fund additional capital contributions for the quarter. The value of this Permitted Practice may increase over time generally as a result of increases in statutory reserves or decreases in market values. In connection with the Permitted Practice, SALIC agreed to contribute to SRUS $30.3 million in capital prior to SRUS filing its third quarter 2008 financial statements and an additional $7 million prior to SRUS filing its fourth quarter 2008 financial statements.

- Due to market value degradation and its impact on SRD's solvency, we effectuated a transfer of a majority of our business in SRD to SALIC effective October 1, 2008. SALIC in return received modified coinsurance assets with respect to the ING business originally ceded to SRD, reserve credit trust assets with respect to business originally ceded from SRUS to SRD, which business also was transferred from SRD to SALIC, and a $70 million surplus note originally issued by SRUS to SRD. There was no net income impact related to this transaction.

- In connection with SRUS' receipt, effective as of September 30, 2008, of the Permitted Practice, SRUS consented to the issuance by 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 requires, among other things, the Department's consent to any transaction by SRUS outside the ordinary course of business or with its affiliates, and in large part formalizes certain reporting and processes already informally implemented between SRUS and the Department during 2008. The Order of Supervision, which was set to lapse on April 5, 2009 (and every 90 days thereafter pursuant to Delaware regulation), subsequently was amended and replaced with a Continued and Amended Order of Supervision, dated April 3, 2009, which amends and clarifies certain matters contained within the original Order of Supervision.

- On January 22, 2009, the Company, Scottish Holdings, Inc. ("SHI"), SRUS, SRLB and SRD (collectively, the "Sellers") entered into a Master Asset Purchase Agreement (the "Purchase Agreement") with Hannover Life Reassurance Company of America and its affiliate, Hannover (Ireland) (together, "Hannover Re"), and the ING Companies, pursuant to which Hannover Re agreed to purchase from the Sellers a block of individual life reinsurance business acquired in 2004 by us 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"). The Acquired Business does not include business formerly reinsured from SRUS to Ballantyne Re, as this business was novated and assigned to SLD effective October 1, 2008, as discussed above. In addition to the acquisition of the Acquired Business, the Purchase Agreement also related to the sale to Hannover Re of certain assets used by the Sellers in connection with the administration of the Acquired Business and retained business in our Life Reinsurance North America Segment and the transfer of certain employees from certain of the Sellers to Hannover Re. The closing of the transactions contemplated by the Purchase Agreement occurred on February 20, 2009. In connection with the Purchase Agreement, the transfer to Hannover Re of the Acquired Business generally was accomplished (i) through the recapture by the ING Companies from certain of the Sellers of the Acquired Business, and the cession immediately thereafter by the ING Companies to Hannover Re of the Acquired Business under new reinsurance agreements and (ii) in specific instances, by a novation of existing reinsurance agreements from certain of the Sellers to Hannover Re. These recapture and reinsurance

transactions and the novation agreements each have 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 and SRUS and SRLB have collateralized these obligations by depositing assets in trust accounts established for the benefit of SLD and SLDI. Following the transfer of assets with respect to the recaptures noted above, we were released of associated policyholder liabilities on the sale of the Acquired Business. The release of such liabilities is estimated to result in a pre-tax non-cash GAAP gain of approximately $700 million, after transaction expenses and related costs.

- On February 17, 2009, citing, among other things, the current economic conditions and the uncertainty of the conditions that lay ahead, the Insurance Commissioner of the State of Delaware (the "Insurance 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 this requirement, SRUS 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 the Preferred Mortality Table 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 for statutory accounting purposes by their terms are effective for valuations on and after December 31, 2008. As at December 31, 2008, the effect of the Emergency Regulations on SRUS' capital and surplus was a positive $190 million. Accordingly, in the absence of the Emergency Regulations, SRUS' risk based capital as of December 31, 2008 may have resulted in further regulatory action against SRUS.

- In order to further preserve liquidity, we began deferring interest payments as of March 4, 2009 on floating rate capital securities and trust preferred securities issued and sold through certain statutory trusts that we previously established. See Note 12, "Debt Obligations and Other Funding Agreements." Under the terms of these securities, we are entitled to defer interest payments for up to 20 consecutive quarterly periods.

- Through negotiated repurchases, we extinguished the $100 million payment obligation falling due on March 12, 2009, in respect of the Premium Asset Trust ("PATS") funding agreement to which SALIC was a party for a significant discount to par on an aggregate basis.

Following the satisfaction of the PATS funding agreement, our nearest term remaining debt obligations are the Stingray Investor Trust ("Stingray") funding agreements which are outstanding in the amount of $325 million and mature in January 2015.

With the completion of the foregoing actions, we plan to pursue our run-off strategy for the remaining business in our Life Reinsurance North America Segment, whereby we will continue to receive premiums, pay claims and perform key activities under our remaining reinsurance treaties. To succeed, this strategy will require us to maintain sufficient liquidity and meet ongoing regulatory capital requirements. While management believes the Company presently has sufficient liquidity and regulatory capital in the short term, our ability to pursue our run-off strategy over time will depend upon numerous factors, including, for example, the extent of market value losses on investments, mortality and lapse experience performing according to expectations, our ability to control expenses and the availability of funding sources as required. No assurances can be given that we will be successful in meeting our liquidity and capital needs going forward.

Business

We have two reportable segments: Life Reinsurance North America and Corporate and Other. The Life Reinsurance North America Segment has written reinsurance business that is wholly or partially retained in one or more of our reinsurance subsidiaries. We have ceased writing new business and, as noted above, have completed the sale of the Acquired Business which was a large block of business in our Life Reinsurance North America Segment.

Life Reinsurance North America

In our Life Reinsurance North America Segment, we have assumed risks associated with primary life insurance, annuities and annuity-type policies. We reinsure mortality, investment, persistency and expense risks of United States life insurance and reinsurance companies. Most of the reinsurance assumed is through automatic treaties, but in 2006 we also began assuming risks on a facultative basis. The Life Reinsurance North America Segment suspended bidding for new business treaties on March 3, 2008, and issued notices of cancellation for all open treaties. See Note 24 “Subsequent Events” for additional details on the Sale of a Block of Life Reinsurance North America Business and Run-Off strategy. The business we have written falls into two categories: Traditional Solutions and Financial Solutions, as detailed below.

Traditional Solutions: We reinsure the mortality risk on life insurance policies written by primary insurers. The business is often referred to as traditional life reinsurance. We wrote our Traditional Solutions business predominantly on an automatic basis. This means that we automatically reinsured all policies written by a ceding company that met the underwriting criteria specified in the treaty with the ceding company. As discussed herein, we recently completed 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 equity indexed annuities.

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

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

Corporate and Other

Income in our Corporate and Other Segment is comprised of investment income, including realized investment gains or losses, from invested assets not allocated to support reinsurance segment operations. General corporate expenses consist of unallocated overhead and executive costs and collateral finance facility expense.

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. We have incurred a net loss of $2,710 million for the year ended December 31, 2008 and shareholders' deficit of $2,410 million as of December 31, 2008. Our operating results and financial condition have deteriorated due to, among other things, prevailing global credit market conditions throughout 2008 that have had a dramatic effect on the financial services industry and the global economy. The turmoil in the mortgage and broader credit markets have resulted in declines in the fair value of our invested assets, which contain a significant concentration of sub-prime and Alt-A residential mortgage-backed securities. These conditions generally have not improved during the first quarter of 2009 and, notwithstanding the unprecedented intervention of the United States and other governments in the global banking and financial markets, we do not expect these adverse market conditions and their impact on us to improve significantly in the near term.

In the event that for any reason, we fail to comply with the Department's Order of Supervision, or in the event the financial condition of SRUS materially were 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. Based upon management's preliminary analysis, in the event of bankruptcy, SRGL and SALIC may not have sufficient funds to pay creditors or the ability to execute an orderly run-off strategy.

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.

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

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

- investment valuation and impairments;
- accounting for derivative instruments;
- assessment of risk transfer for structured insurance and reinsurance contracts;
- estimates of premiums;
- valuation of present value of in-force business;
- establishment of reserves for future policy benefits;
- amortization of deferred acquisition costs;
- retrocession arrangements and amounts recoverable from reinsurers;
- interest sensitive contract liabilities; 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, except share and per share data, 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 $38.5 million, which was previously included in accumulated other comprehensive income (loss), was reclassified and recorded in the Consolidated Statement of Operations caption "Net realized and unrealized losses".

We carry securities at fair value on our Consolidated Balance Sheet. 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 value. Cash flows for trading securities are classified in Investing Activities on the Consolidated Statement of Cash Flows based on the nature and purpose for which the related securities were acquired. Investment transactions are

recorded on the trade date with balances pending settlement reflected in the Consolidated Balance Sheet as a component of cash and cash equivalents.

During the year ended December 31, 2007, fixed maturity investments were classified as available for sale, and accordingly, we carried these investments at fair value on our Consolidated Balance Sheets. The cost of fixed maturity investments was adjusted for prepayments, impairments and the amortization of premiums and discounts. We did not change the revised cost basis for subsequent recoveries in value. The unrealized appreciation (depreciation) was the difference between fair value and amortized cost and was recorded directly to equity with no impact to net income. The change in unrealized appreciation (depreciation) was included in accumulated other comprehensive income (loss) in shareholders' equity after deductions for adjustments for deferred acquisition costs and deferred income taxes. Investment transactions were recorded on the trade date with balances pending settlement reflected in the Consolidated Balance Sheet as a component of cash and cash equivalents. Interest income was recorded on the accrual basis.

During the year ended December 31, 2007, Statement of Financial Accounting Standard ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"), and related accounting guidance, including FASB Staff Position FAS 115-1/124-1 "The Meaning of Other Than Temporary Impairments and Its Application to Certain Investments" required that we evaluated, for each security where the estimated fair value is less than its amortized cost, whether we had the intent and ability to hold the security for a reasonable time for a forecasted recovery of the fair value up to the amortized cost of the investment. This required that we consider our capital and liquidity requirements, any contractual or regulatory obligations and the implications of our strategic initiatives that might indicate that securities may need to be sold before forecasted recovery of fair value occurs. For certain investments in beneficial interests in securitized financial assets of less than high quality with contractual cash flows, including asset-backed securities, Emerging Issue Task Force 99-20 "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continued to be Held by a Transferor in Securitized Financial Assets" ("EITF 99-20") required a periodic update of our best estimate of cash flows over the life of the security. If the fair value of an investment in beneficial interests in a securitized financial asset was less than its cost or amortized cost and there had been a decrease in the present value of estimated cash flows since the last revised estimate, considering both their timing and amount, an other-than-temporary impairment charge was recognized. Interest income was recognized based on changes in the expected principal and interest cash flows reflected in the yield. Projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral. When a decline was considered to be other-than-temporary, the cost basis of the impaired asset was adjusted to its fair value and a corresponding realized investment loss is recognized in the Consolidated Statement of Operations.

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.

We review available-for-sale securities with unrealized losses and test for other-than-temporary impairments on a quarterly basis. Factors involved in the determination of potential impairment include fair value as compared to cost, length of time the value has been below cost, credit worthiness of the issuer, forecasted financial performance of the issuer, position of the security in the issuer's capital structure, the presence and estimated value of collateral or other credit enhancement, length of time to maturity, interest rates and our intent and ability to hold the security until the estimated fair value recovers.

Other investments include equity securities and structured loans, which are generally accounted for at fair value. Other investments represented approximately 0.4% and 0.6% of our investments as of December 31, 2008 and 2007, 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 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 Statement of Operations and the assets and liabilities in the Consolidated Balance Sheet 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 SFAS No. 144, 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 Statement 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 SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). The accounting for changes in the fair value of stand alone derivatives that have not been designated as a hedge are included in net realized and unrealized losses in the Consolidated Statement of Operations. The gains or losses on derivatives designated as a hedge of our interest expense on floating rate securities are included in interest expense.

Our funds withheld at interest arise on modified coinsurance and funds withheld coinsurance agreements. 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 years ended December 31, 2008, 2007 and 2006, we also carried equity-indexed life reinsurance contracts, with account values credited with a return indexed to an equity index rather than established interest rates. Under Derivatives Implementation Group Issue No. B10 "Embedded Derivatives: Equity-Indexed Life Insurance Contracts", these transactions contained embedded derivatives. These contracts were recaptured in the fourth quarter of 2008, eliminating the associated embedded derivative balance of $81.4 million and resulting in a pre-tax gain of $35.2 million.

The fair value of these embedded derivatives at December 31, 2008, was a liability of $347.5 million (2007- $131.5 million) and is included in accounts payable and other liabilities. The change in fair value of embedded derivatives is reported in the Consolidated Statement of Operations 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 Sheet as opposed to premiums written or losses incurred in the Consolidated Statement of Operations 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 Statement of Operations.

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.

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 2008 and 2007). The carrying value is reviewed for premium deficiency at least annually for indicators of impairment in value.

Reserves for Future Policy Benefits

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 or credit 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 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 such circumstances we reduce actual gross profits to 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 a 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 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 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, 2008 and 2007, we had a reserve for uncollectible reinsurance of $4.5 million and $8.5 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.

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 SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). In accordance with SFAS No. 109, 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, deferred acquisition costs, 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.

On January 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the consolidated financial statements in accordance with SFAS No. 109. Under FIN 48, tax positions must meet a "more likely than not" recognition threshold at the effective date to be recognized in the consolidated financial statements. Our policy for recording interest and penalties associated with uncertain tax positions is to record such items as a component of income tax expense.

As a result of the implementation of FIN 48, we recorded a net decrease to our beginning retained earnings (deficit) of $18 million, representing a total FIN 48 liability of $75.3 million (excluding previously recognized liabilities of $6.5 million and including interest and penalties of $8.9 million), offset by a $57.3 million reduction of our existing valuation allowance. We had total unrecognized tax benefits (excluding interest and penalties) of $72.6 million at January 1, 2007, the recognition of which would result in a $15.3 million benefit to the effective tax rate.

Stock-based Compensation

We account for our stock-based compensation in accordance with SFAS No.123(R) "Share Based Payment" ("SFAS No. 123(R)"), using the modified-prospective transition method.

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, collateral finance facility costs, certain deferred transaction costs, funds on deposit as security for certain collateral finance facilities, and fixed assets, including

capitalized software. Capitalized software is stated at cost less accumulated amortization. Purchased software costs, as well as internal and external costs incurred to develop internal-use computer software during the application development stage, are capitalized.

As of December 31, 2008 and 2007, we had unamortized collateral finance facilities costs and debt issuance costs of approximately $24.5 million and $73.7 million, respectively. During 2008, 2007 and 2006, we amortized collateral finance facilities costs and debt issuance costs of $6.8 million, $11.9 million and $7.9 million, respectively. In addition, we wrote off collateral finance facilities costs in 2008 related to Ballantyne Re ($21.3 million), Clearwater Re ($10.3 million), HSBC II ($4.8 million) and our reinsurance facility ($4.6 million). There were no write offs of collateral finance facilities costs in 2007 and 2006. Deferred costs relating to the collateralized catastrophe protection with Tartan were fully amortized in 2008. During 2008, 2007 and 2006, we amortized $1.4 million, $1.4 million and $1.7 million of these deferred costs respectively.

Other Liabilities

Other liabilities primarily relate to collateral facility accrued interest, the fair value of embedded derivatives, deferred guarantee fees and our FIN 48 tax liability.

Earnings per Share

In accordance with SFAS Statement No. 128 "Earnings Per Share" ("SFAS No. 128"), and EITF No. 03-06, "Participating Securities and the Two-Class Method under FASB Statement No. 128,"basic earnings per share is computed based on the weighted average number of ordinary shares outstanding and assumes an allocation of net income to the Convertible Cumulative Participating Preferred Shares for the period or portion of the period that this security is outstanding. During the year ended December 31, 2007, we determined that in accordance with EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", and EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments", the non-cash beneficial conversion feature recorded on issue of the Convertible Cumulative Participating Preferred Shares amounting to $120.8 million should be treated as a deemed dividend and deducted from the net loss attributable to ordinary shareholders for the purposes of calculating earnings per share.

Under the provisions of SFAS No. 128, basic earnings per share are computed by dividing the net loss attributable to ordinary shareholders by the weighted average number of shares of our ordinary shares outstanding for the period. Diluted earnings per share is calculated based on the weighted average number of shares of ordinary shares outstanding plus the diluted effect of potential ordinary shares in accordance with the if-converted method.

3. Recent Accounting Pronouncements

FASB Statement No. 157, Fair Value Measurements

As of January 1, 2008, we adopted 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 SFAS No. 157 did not have a material impact on our consolidated financial statements.

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 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"). FSP No. 157-4 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. FSP No. 157-4 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. We are currently evaluating the potential impact of the adoption of FSP No.157-4 on our consolidated financial condition and results of operations.

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 No. 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" ("FSP No. 140-4"). FSP No. 140-4 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. FSP No. 140-4 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 FSP No. 140-4 include the primary beneficiary of the VIE, the holder of a significant variable interest and a sponsor that holds a variable interest. Further, FSP No. 140-4 requires enhanced disclosures for certain sponsors and holders of a significant variable interest in a qualifying special purpose entity. The provisions of FSP No. 140-4 are effective for the first reporting period ending after December 15, 2008, and comparative disclosures are not required. We included the enhanced disclosures required by FSP No. 140-4 in the notes to the consolidated financial statements beginning in the reporting period ended December 31, 2008.

See Note 11, "Collateral Finance Facilities and Securitization Structures" for more information regarding our involvement with VIEs.

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

In December 2007, the FASB issued 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. 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 deconsolidation 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. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We do not expect the adoption of SFAS No. 160 will have a material impact on our consolidated financial condition and results of operations.

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

In March 2008, the FASB issued SFAS No. 161 "Disclosures About Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 establishes reporting standards that require enhanced disclosures about how and why derivative instruments are used, how derivative instruments are accounted for under FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments affect an entity's financial condition, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. We do not anticipate SFAS No. 161 will have a material effect on our consolidated financial condition and results of operations.

FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS No. 162"). This statement identifies the sources of 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 GAAP. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We do not anticipate that SFAS No. 162 will have a material impact on our financial condition or results of operations.

4. 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., and on August 5, 2008, the transaction closed with respect to The Scottish Annuity Company (Cayman) Ltd. We generated proceeds of $9.3 million and recognized a net loss of $4.9 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 for $67.1 million after purchase price adjustments of $4.1 million. The purchase of the Asia portion of the Life Reinsurance International Segment was completed on August 20, 2008, for an additional payment by Pacific Life Insurance Company of $0.5 million. We recorded an aggregate loss of $31 million on these transactions in fiscal year 2008. Pre-sale, the Life Reinsurance International Segment incurred a loss from operations of approximately $7 million. Additionally, in March 2009, the Singapore branch was closed and $6.1 million of capital was returned to SALIC.

The following table presents the assets and liabilities held for sale for the Life Reinsurance International Segment and 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	$ 189,124
Cash and cash equivalents	68,598
Other investments	6
Funds withheld at interest	(68)
Total investments	257,660
Accrued interest receivable	3,219
Reinsurance balances and risk fees receivable	119,835
Deferred acquisition costs	39,634
Amount recoverable from reinsurers	29,519
Present value of in-force business	3,701
Other assets	10,471
Current income tax receivable	104
Deferred tax liability	2,045
Segregated assets	703,945
Total Assets held for sale	$ 1,170,133
Reserves for future policy benefits	$ 226,112
Accounts payable and other liabilities	14,585
Reinsurance balances payable	37,233
Segregated liabilities	703,945
Total Liabilities held for sale	$ 981,875

5. 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 Statement of Operations caption “Net realized and unrealized losses”.

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

The portion of net unrealized losses for the year ended December 31, 2008, that relates to trading securities still held at the reporting date is $1,875 million.

The estimated fair values of our fixed maturity investments and preferred stock at December 31, 2008 is as follows:

(U.S. dollars in thousands)	Year Ended December 31, 2008
U.S. Treasury securities and U.S. government agency obligations	$ 109,795
Corporate securities	1,593,499
Municipal bonds	49,549
Mortgage and asset backed securities	2,028,261
Preferred stock	79,767
Total	$ 3,860,871

The amortized cost, gross unrealized appreciation and depreciation and estimated fair values of our fixed maturity investments and preferred stock at December 31, 2007 is as follows:

	December 31, 2007			
(U.S. dollars in thousands)	Amortized Cost or Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
U.S. Treasury securities and U.S. government agency obligations	$ 87,150	$ 2,298	$ -	$ 89,448
Corporate securities	2,645,818	23,937	-	2,669,755
Municipal bonds	55,466	732	-	56,198
Mortgage and asset backed securities	4,606,181	10,536	-	4,616,717
Preferred stock	88,914	59	-	88,973
Total	$ 7,483,529	$ 37,562	$ -	$ 7,521,091

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

	Estimated Fair Value
(U.S. dollars in thousands)	Year Ended December 31, 2008
Due in one year or less	$ 155,369
Due after one year through five years	514,226
Due after five years through ten years	455,511
Due after ten years	707,504
	1,832,610
Mortgage and asset backed securities	2,028,261
Total	$ 3,860,871

The contractual maturities of the fixed maturities and preferred stock at December 31, 2007 were as follows (actual maturities may differ as a result of calls and prepayments):

	December 31, 2007	
(U.S. dollars in thousands)	**Amortized Cost or Cost**	**Estimated Fair Value**
Due in one year or less	$ 143,308	$ 143,441
Due after one year through five years	736,156	743,871
Due after five years through ten years	926,427	936,439
Due after ten years	1,071,457	1,080,623
	2,877,348	2,904,374
Mortgage and asset backed securities	4,606,181	4,616,717
Total	$ 7,483,529	$ 7,521,091

During the year ended December 31, 2007, we reviewed available-for-sale securities with material unrealized losses and tested for other-than-temporary impairments on a quarterly basis. Factors involved in the determination of potential impairment include fair value as compared to cost, length of time the fair value has been below cost, credit worthiness and forecasted financial performance of the issuer, position of the security in the issuer's capital structure, the presence and estimated value of collateral or other credit enhancement, length of time to maturity, the level and volatility of interest rates and our intent and ability to hold the security until the estimated fair value recovers. When a decline is considered to be "other-than-temporary", the cost basis of the impaired asset is adjusted to its fair value and a corresponding realized investment loss recognized in the Consolidated Statement of Operations.

U.S. GAAP requires that we evaluate, for each impaired security where the estimated fair value is less than its amortized cost, whether we have the intent and ability to hold the security for a reasonable time for a forecasted recovery of the fair value up to the amortized cost of the investment. This required us to consider our capital and liquidity requirements, any contractual or regulatory obligations, and the implications of our strategic initiatives that might indicate that securities may need to be sold before the forecasted recovery of fair value occurs.

We did not meet the necessary conditions to assert the intent and ability to hold securities with unrealized losses for a period of time sufficient to allow for a recovery in their value as of December 31, 2007. In accordance with SFAS No. 115, we recorded $777.1 million as part of net realized investment losses in the Consolidated Statement of Operations during the fourth quarter of 2007 to recognize other-than-temporary impairments in securities that we no longer could positively assert our intent and ability to hold to recovery of fair value.

During the years ended December 31, 2007, and 2006, fixed maturity investments and preferred stock available-for-sale securities with a fair value at the date of sale of $290.3 million and $1,186.1 million, respectively were sold.

During the years ended December 31, 2007, and 2006, fixed maturity investments and preferred stock available-for-sale securities which were below amortized cost were sold at losses of $12.6 million and $9.8 million respectively.

At December 31, 2007, our available-for-sale fixed income portfolio had 11,053 positions. Of these positions, there were none trading at an unrealized loss.

Due to other-than-temporary impairment charges recognized by us in the year ended December 31, 2007, there were no fixed maturity investments or preferred stock that have estimated fair values below amortized cost or cost as of December 31, 2007.

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, 2008, 2007 and 2006 are as follows:

(U.S. dollars in thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Gross realized gains (losses)			
Fixed maturities			
Gross realized gains	$ 37,257	$ 2,911	$ 4,210
Gross realized losses	(33,863)	(13,149)	(7,463)
Net unrealized losses	(1,866,490)	-	-
Other-than-temporary impairments	-	(952,315)	(2,796)
	(1,863,096)	(962,553)	(6,049)
Preferred stock			
Gross realized gains	138	1	35
Gross realized losses	(87)	(1,732)	(1,450)
Net unrealized losses	(8,324)	-	-
Other-than-temporary impairments	-	(9,441)	(53)
	(8,273)	(11,172)	(1,468)
Other			
Foreign currency gains	(149)	(356)	265
Deferred acquisition costs	-	5,112	3,937
Change in fair value interest rate swaps	-	-	4,388
Realized losses on modco treaties	(19,374)	(2,582)	(17,202)
Other	(5,003)	(1,369)	635
Net realized and unrealized losses	(1,895,895)	(972,920)	(15,494)
Change in net unrealized (depreciation) appreciation on investments			
Fixed maturities	(38,392)	75,252	(5,914)
Preferred stock	(59)	2,793	679
Other	204	(454)	(607)
Change in deferred acquisition costs	5,442	(14,428)	3,107
Change in deferred income taxes	6,495	(17,229)	990
Change in net unrealized (depreciation) appreciation on investments	(26,310)	45,934	(1,745)
Total net realized and unrealized losses and change in net unrealized (depreciation) appreciation on investments and other balances	$ (1,922,205)	$ (926,986)	$ (17,239)

Net investment income for the years ended December 31, 2008, 2007 and 2006 was derived from the following sources:

(U.S. dollars in thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Fixed maturities	$ 288,877	$ 443,943	$ 368,120
Preferred stock	5,618	6,564	8,396
Funds withheld at interest	73,747	104,055	161,964
Other investments	16,881	43,056	67,487
Investment expenses	(7,819)	(11,289)	(13,981)
Net investment income	$ 377,304	$ 586,329	$ 591,986

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, 2008 and 2007, such assets included fixed maturities of $3,522 million and $7,118 million, respectively, and cash and cash equivalents of $614 million and $624 million, respectively. This includes controlled assets within collateral finance facilities structures that we consolidate. See Note 11, "Collateral Finance Facilities and Securitization Structures". The estimated fair value of these assets, as at December 31, 2008, total $1,776 million of investments (2007 - $4,504 million) and $452 million of cash and cash equivalents (2007 - $475 million). 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, 2008 and 2007 are as follows:

(U.S. dollars in thousands)	December 31, 2008	December 31, 2007
Deposits with U.S. regulatory authorities	$ 15,267	$ 14,375
Trust funds	4,120,232	7,727,630
	$ 4,135,499	$ 7,742,005

6. Fair Value Measurements

We adopted SFAS No. 157 as of January 1, 2008. SFAS No. 157 establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

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

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

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

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

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

Level 2 includes those financial instruments that are valued by independent pricing services or valued using models or other valuation methodologies. 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 comprised of financial instruments whose fair value is estimated based on non-binding 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. Embedded derivatives are reported with the host instruments in the Consolidated Balance Sheet.

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

The majority of our fixed maturity and equity securities use Level 2 inputs for the determination of fair value. These fair values are obtained primarily from independent pricing services, when available, utilizing Level 2 inputs. Where pricing services do not provide fair values, the pricing services utilize proprietary pricing models to produce estimates of fair value primarily utilizing Level 2 inputs along with certain Level 3 inputs.

The proprietary pricing models include matrix pricing where we discount expected cash flows utilizing market interest rates obtained from third-party sources based on the credit quality and duration of the instrument to determine fair value. For securities that may not be reliably priced using internally developed pricing models, broker quotes are obtained. These broker quotes represent an exit price but the assumptions used to establish the fair value may not be observable and represent Level 3 inputs.

The embedded derivatives in funds withheld at interest include the embedded derivatives resulting from assumed modified coinsurance ("modco") or coinsurance funds withheld reinsurance arrangements. These values are based upon the difference between the fair value of the underlying assets backing the modco or funds withheld receivable and the fair value of the underlying liabilities.

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

The fair value is determined by using the Income Approach as characterized by SFAS No. 157. This method estimates the value of future equity purchases using certain actuarial assumptions and margins. The actuarial assumptions include factors that 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.

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

	December 31, 2008			
(U.S. dollars in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments				
Fixed maturity investments	$ 3,781.1	$ -	$ 2,908.1	$ 873.0
Preferred stock	79.8	-	31.2	48.6
Total assets at fair value	$ 3,860.9	$ -	$ 2,939.3	$ 921.6
Funds withheld at interest – embedded derivatives	(347.5)	-	-	(347.5)
Total liabilities at fair value	$ (347.5)	$ -	$ -	$ (347.5)

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**	**Funds Withheld at Interest – Embedded Derivatives**	**Interest Sensitive Contract Liabilities – Embedded Derivatives**	**Total**
Beginning balance at January 1, 2008	$ 2,552.6	$ (38.5)	$ (93.0)	$ 2,421.1
Total realized and unrealized gains (losses) included in net loss	(1,472.6)	(309.0)	11.6	(1,770.0)
Purchases, issuances and settlements	(125.7)	-	81.4	(44.3)
Transfers in and/or out of Level 3	(32.7)	-	-	(32.7)
Ending balance at December 31, 2008	$ 921.6	$ (347.5)	$ -	$ 574.1

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.

7. Fair Value of Financial Instruments

As discussed above, fair value of financial assets and liabilities is estimated under SFAS No. 157 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) Policy loans carrying value approximates to 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 non-performance risk of the guarantors.

(v) Fair values for our long term debt were determined by a third party service provider with reference to similar quoted securities.

(vi) Amounts payable under funding agreements are a component of interest sensitive contract liabilities. Fair value was determined by a third party service provider with reference to similar quoted securities.

(vii) Investment contracts exclude significant mortality risk and are a component of interest sensitive contract liabilities. The fair value of investment contracts is based on the cash surrender value of the liabilities as an approximation of the exit market.

(viii) Embedded derivatives 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.

	December 31, 2008		December 31, 2007	
(U.S. dollars in thousands)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Assets				
Fixed maturity investments	$ 3,781,104	$ 3,781,104	$ 7,432,118	$ 7,432,118
Preferred stock	79,767	79,767	88,973	88,973
Policy Loans	18,112	18,112	22,155	22,155
Funds withheld at interest (excluding cash)	1,748,768	1,474,183	1,597,404	1,680,665
Liabilities				
Collateral finance facilities	$ 3,000,000	$ 1,861,229	$ 3,980,379	$ 3,878,682
Long term debt	129,500	62,000	129,500	113,500
Amounts payable under funding agreements	425,159	185,000	100,320	70,320
Investment contracts	1,600,395	1,554,817	2,460,465	2,364,322
Embedded derivatives	347,519	347,519	131,478	131,478

8. Funds Withheld at Interest

For agreements written on a modco basis and certain agreements written on a coinsurance funds withheld basis, asset values recorded in the Consolidated Balance Sheet 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, 2008 and 2007, funds withheld at interest were in respect of six contracts with four ceding companies. At December 31, 2008, we had three contracts with Lincoln Financial Group that accounted for $535 million or 31% of the funds withheld balances. Additionally, we had one contract with SLDI that accounted for $1,165 million or 67% of the funds withheld balances. The remaining contracts were with Illinois Mutual Insurance Company and American Founders Life Insurance Company. Lincoln National Life Insurance Company has financial strength ratings of "A+" from AM. Best, "AA-" from Standard & Poor's, "A1" from Moody's and "AA-" from Fitch. 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 $1,749 million and $1,597 million at December 31, 2008 and 2007, respectively.

9. Deferred Acquisition Costs

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

(U.S. dollars in thousands)	December 31, 2008	December 31, 2007
Balance beginning of year	$ 581,131	$ 603,729
Expenses deferred	16,677	43,700
Amortization expense	(227,775)	(56,982)
Deferred acquisition costs on unrealized gains and losses	5,442	(14,428)
Deferred acquisition costs on realized losses	-	5,112
Balance at end of year	$ 375,475	$ 581,131

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.

10. 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, 2008	December 31, 2007
Balance at beginning of year	$ 41,859	$ 43,774
Amortization	(1,754)	(1,915)
Balance at end of year	$ 40,105	$ 41,859

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

(U.S. dollars in thousands) Year ending December 31		
2009	$	3,402
2010		3,565
2011		3,212
2012		2,811
2013		2,578
Thereafter		24,537
	$	40,105

11. 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 cannot require repayment from 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.

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, 2008, the interest rate was 2.82% (2007 – 5.23%). 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 Delaware Insurance 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 FIN 46R, 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 has been consolidated in our financial statements. The assets of Orkney I have been recorded as fixed maturity investments and cash and cash equivalents. Our Consolidated Statement of Operations 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 5, "Investments".

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

Orkney Re II plc

On December 21, 2005, Orkney Re II plc, a special purpose vehicle incorporated under the laws of Ireland ("Orkney Re II"), whose issued ordinary shares are held by a share trustee and its nominees in trust for charitable purposes, issued in a private offering $450 million of debt to external investors. The debt consisted of $382.5 million of Series A-1 Floating Rate Guaranteed Notes (the "Series A-1 Notes"), $42.5 million of Series A-2 Floating Rate Notes (the "Series A-2 Notes"), and $25 million of Series B Floating Rate Notes (the "Series B Notes"), all due December 31, 2035 (collectively, the "Orkney Re II Notes"). The Orkney Re II 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 Re II. Proceeds from the Orkney Re II Notes have been deposited into a series of accounts that collateralize the notes and the reserve obligations of SRUS.

The holders of the Orkney Re II Notes cannot require repayment from us or any of our subsidiaries, only from Orkney Re II. Assured Guaranty (UK) Ltd. has guaranteed the timely payment of the scheduled interest payments and the principal on the maturity date of the Series A-1 Notes.

The debt issued to SALIC consisted of $30 million of Series C Floating Rate Notes ("Series C Notes") due December 21, 2036, and $5 million of Series B Notes. These Series C Notes accrue interest only until the Orkney Re II Notes are fully repaid. SRGL owns $0.5 million Series D Convertible Notes due December 21, 2036, and 76,190,000 Preference Shares of $1.00 each in capital.

Interest on the principal amount of the Orkney Re II Notes is payable quarterly at a rate equivalent to three-month LIBOR plus 0.425% for the Series A-1 Notes, three-month LIBOR plus 0.73% for the Series A-2 Notes, and three-month LIBOR plus 3.0% for the Series B Notes. At December 31, 2008, the interest rate on the Series A-1 Notes was 2.72% (2007 – 5.13%), Series A-2 Notes was 3.02% (2007 - 5.43%), and Series B Notes was 5.29% (2007 - 7.70%). The Orkney Re II Notes also contain customary limitation on lien provisions and customary events of default provisions, which, if breached, could result in the accelerated maturity of the Orkney Re II Notes. Orkney Re II has the option to redeem all or a portion of the Orkney Re II Notes, subject to certain call premiums and available (unencumbered) funds.

In accordance with FIN 46R, Orkney Re II 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 Re II has been consolidated in our financial statements. The assets of Orkney Re II have been recorded as fixed maturity investments and cash and cash equivalents. Our Consolidated Statement of Operations shows the investment return of Orkney Re II as investment income and the cost of the securitization structure is reflected in collateral finance facilities expense. Funds in the securitizations are primarily used for the purpose of the securitizations and hence not available for general corporate purposes. See Note 5, "Investments".

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

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

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 FIN 46R, 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 has been 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 Statement of Operations shows the investment return of the trust as investment income and the cost of the facility is 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.

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 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 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 Purchase Agreement 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 Sheet or Consolidated Statement of Operations 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 second 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 ("Ballantyne Re"), issued in a private offering $1.74 billion of debt to external investors and $178 million of debt to SALIC.

Interest on the principal amount of 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 cannot require repayment from 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 Guaranty (UK) Ltd ("Assured").

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.

In accordance with FIN 46R, Ballantyne Re 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, Ballantyne Re is consolidated in our financial statements. The assets of Ballantyne Re are recorded as fixed maturity investments and cash and cash equivalents. Our Consolidated Statement of Operations includes the investment return of Ballantyne Re as investment income and the cost of the

securitization structure is reflected in collateral finance facilities expense. Funds in the securitizations are fully used for the sole purpose of the securitizations and hence not available for general corporate purposes. See Note 5, "Investments".

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 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 (2007 - $20.7 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 Ambac and Assured, the financial guarantors under the Ballantyne Re facility (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 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 the First Quarter Recapture, as of March 31, 2008, of a pro-rata portion of the business that had been ceded by SRUS to Ballantyne Re (all such recaptured business pursuant to the First Quarter Recapture and subsequent recaptures, collectively, the "Recaptured Business") for the purpose of collateralizing the 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 the First Quarter 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.

As previously disclosed in our interim consolidated financial statements for the period ended June 30, 2008, 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 Second Quarter 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 the Second Quarter 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 (the "September 30th LOI") 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 the Third Quarter 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 the Third Quarter 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 transacted the Fourth Quarter Recapture, which recaptured on a pro-rata basis, approximately 11.4% of the original Ballantyne Business. Immediately following the Fourth Quarter 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 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 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 is 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 were consistent with pricing from our 2004 acquisition agreement with the ING Companies, as amended on May 7, 2007. Upon closing the Purchase Agreement 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 24, "Subsequent Events" 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 remained 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 is 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. Following the sale of the Acquired Business, Hannover Re assumed these obligations, and SLDI therefore has the right to cede the Recaptured Business to Hannover Re, and Hannover Re will bear the costs of the relevant LOCs.

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 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.

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 (2007 - $904.6 million) 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

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 FIN 46R, Clearwater Re was considered to be a variable interest entity and we are 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 is consolidated in our financial statements. The assets of Clearwater Re have been recorded as fixed maturity investments and cash and cash equivalents. Our Consolidated Statement of Operations includes the investment return of Clearwater Re as investment income and the cost of the facility is 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 5, "Investments".

On June 30, 2008, we executed forbearance agreements with the relevant counterparties to the Clearwater Re facility, whereby the relevant counterparty 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, all of which significantly increased constraints on our available capital and liquidity.

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 quarter ended September 30, 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 and relieved significant pressure on our liquidity.

Consolidated collateral finance facilities and securitization structures

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

(U.S. dollars in millions)	As at and for the Year Ended December 31, 2008 Clearwater Re	Ballantyne Re	Orkney I	Orkney Re II	HSBC II	Total
Assets						
Investments	$ -	$ 641.8	$ 887.6	$ 246.6	$ -	$ 1,776.0
Cash and cash equivalents	0.3	235.9	148.9	66.7	-	451.8
All other assets	-	7.3	117.6	61.3	-	186.2
Total assets	$ 0.3	$ 885.0	$ 1,154.1	$ 374.6	$ -	$ 2,414.0
Liabilities						
Reserves for future policy benefits	$ -	$ 241.9	$ 306.7	$ 111.3	$ -	$ 659.9
Collateral finance facilities	-	1,700.0	850.0	450.0	-	3,000.0
All other liabilities	0.2	93.2	8.4	4.3	-	106.1
Total liabilities	$ 0.2	$ 2,035.1	$ 1,165.1	$ 565.6	$ -	$ 3,766.0
Revenues						
Premiums earned, net	$ 48.5	$ 170.0	$ 99.4	$ 54.3	$ -	$ 372.2
Investment income, net	14.1	89.9	47.3	21.7	14.4	187.4
Net realized (losses) gains	(12.4)	(961.8)	(239.7)	(202.3)	33.1	(1,383.1)
Gain on extinguishment of third party debt	-	19.4	-	-	-	19.4
Total revenues	$ 50.2	$ (682.5)	$ (93.0)	$ (126.3)	$ 47.5	$ (804.1)
Expenses						
Claims and other policy benefits	$ 42.3	$ 59.6	$ 90.0	$ 42.9	$ -	$ 234.8
Acquisition costs and other insurance expenses, net	39.6	41.9	22.2	10.7	-	114.4
Operating expenses	0.1	0.1	0.7	-	-	0.9
Collateral finance facilities expense	17.7	80.2	37.9	20.4	14.5	170.7
Total benefits and expenses	$ 99.7	$ 181.8	$ 150.8	$ 74.0	$ 14.5	$ 520.8

The following table reflects the significant balances, after elimination entries, attributable to the collateral finance facilities and securitization structures providing collateral support to the Company as at and for the year ended December 31, 2007:

(U.S. dollars in millions)	As at and for the Year Ended December 31, 2007						
	Clearwater Re	Ballantyne Re	Orkney I	Orkney Re II	HSBC I	HSBC II	Total
Assets							
Investments	$ 381.4	$ 1,940.0	$ 1,158.9	$ 461.7	$ -	$ 561.9	$ 4,503.9
Cash and cash equivalents	144.2	151.9	122.4	35.1	-	21.1	474.7
All other assets	94.7	68.3	124.9	67.2	-	11.2	366.3
Total assets	$ 620.3	$ 2,160.2	$ 1,406.2	$ 564.0	$ -	$ 594.2	$ 5,344.9
Liabilities							
Reserves for future policy benefits	$ 122.8	$ 675.6	$ 283.1	$ 97.3	$ -	$ -	$ 1,178.8
Collateral finance facilities	365.9	1,719.5	850.0	450.0	-	595.0	3,980.4
All other liabilities	7.7	35.9	12.2	5.1	-	-	60.9
Total liabilities	$ 496.4	$ 2,431.0	$ 1,145.3	$ 552.4	$ -	$ 595.0	$ 5,220.1
Revenues							
Premiums earned, net	$ 40.1	$ 274.0	$ 106.0	$ 56.8	$ -	$ -	$ 476.9
Investment income, net	7.8	144.2	69.2	32.6	6.5	31.1	291.2
Net realized (losses) gains	(1.5)	(604.6)	(63.4)	(115.7)	-	(34.5)	(819.7)
Gain on extinguishment of third party debt	-	20.0	-	-	-	-	20.0
Total revenues	$ 46.4	$ (166.4)	$ 111.8	$ (26.3)	$ 6.5	$ (3.4)	$ (31.4)
Expenses							
Claims and other policy benefits	$ 31.5	$ 209.4	$ 92.1	$ 40.5	$ -	$ -	$ 373.5
Acquisition costs and other insurance expenses, net	11.1	66.0	26.5	12.3	-	-	115.9
Operating expenses	0.1	0.6	0.6	0.4	-	-	1.7
Collateral finance facilities expense	8.8	114.5	57.4	31.0	7.1	33.8	252.6
Total benefits and expenses	$ 51.5	$ 390.5	$ 176.6	$ 84.2	$ 7.1	$ 33.8	$ 743.7

12. Debt Obligations and Other Funding Agreements

Long-term debt consists of:

(U.S. dollars in thousands)	December 31,2008	December 31,2007
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
	$ 129,500	$ 129,500

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 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, 2008 and 2007, the interest rates were 5.43% and 8.70%, 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, 2008 and 2007, the interest rates were 5.43% and 8.70%, 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, 2008 and 2007, the interest rates were 5.38% and 8.65%, 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 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, 2008 and 2007, the interest rates were 5.38% and 8.65%, 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, 2008 and 2007, the interest rates were 5.33% and 8.60%, 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 Scottish Holdings, Inc. 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, 2008 and 2007, the interest rates were 5.33% and 8.60%, 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, 2008 and 2007, the interest rate was 5.23% and 8.50%, respectively. Prior to June 17, 2009, interest cannot exceed 12.50%. Capital Trust III 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 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, 2008 and 2007 the interest rate was 5.23% and 8.50%, respectively. Prior to June 17, 2009, interest cannot 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, 2008, and 2007 the interest rate was 4.93% and 8.20%, respectively. Prior to December 15, 2009, interest cannot 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, 2008 and 2007 the interest rate was 4.93% and 8.20%, respectively. Prior to December 15, 2009, interest cannot 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.

Other Funding Agreements

Stingray Drawdown

On January 12, 2005, we entered into a put agreement with Stingray for an aggregate value of $325 million. Under the terms of the put agreement, we acquired an irrevocable put option to issue funding agreements to Stingray in return for the assets in a portfolio of 30 day commercial paper.

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

Since April 14, 2008, this facility has been fully utilized and $325.0 million of funding agreements have been issued to Stingray and remain outstanding as of December 31, 2008.

Premium Asset Trust Series 2004-4

On March 12, 2004, SALIC 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 is included under interest sensitive contract liabilities on the Consolidated Balance Sheet. As at December 31, 2008 and 2007, $100 million was outstanding under this facility. See Note 24 "Subsequent Events".

The funding agreements are included in interest sensitive contract liabilities in the accompanying Consolidated Balance Sheet.

Credit Facilities

On July 14, 2005, SALIC, SRD, SRUS and Scottish Re Limited ("SRL") entered into a $200 million, three-year revolving unsecured senior credit facility with a syndicate of banks to provide capacity for borrowing and extending letters of credit. All outstanding letters of credit under this facility were cancelled and the facility was terminated effective January 19, 2007.

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. Outstanding letters of credit for SALIC at December 31, 2008 were $75,000.

On March 9, 2007, SALIC entered into a $100 million unsecured term loan facility with Ableco Finance LLC and Massachusetts Mutual Life Insurance Company, both of which are related parties to Cerberus and MassMutual Financial Groups respectively. This facility was terminated on May 7, 2007, in conjunction with the $600 million equity investment by Cerberus and MassMutual Capital (each as defined below). The facility was not drawn down or utilized over the period it was in place.

13. Mezzanine Equity

Convertible Cumulative Participating Preferred Shares

On May 7, 2007, we completed the equity investment transaction by MassMutual Capital Partners LLC ("MassMutual Capital"), a member of the MassMutual Financial Group, and SRGL Acquisition, LDC, an affiliate of Cerberus Capital Management, L.P. ("Cerberus"), announced by us on November 27, 2006 (the "2007 New Capital Transaction"). Pursuant to the 2007 New Capital Transaction, MassMutual Capital and Cerberus each invested $300 million in us in exchange for 500,000 (1,000,000 in the aggregate) newly issued Convertible Cumulative Participating Preferred Shares. The gross proceeds were $600 million less $44.1 million in closing costs, which resulted in aggregate net proceeds of $555.9 million. Each Convertible Cumulative Participating Preferred Share has a par value of $0.01 per share with a liquidation preference of $600 per share, as adjusted for dividends or distributions as described further below.

As of December 31, 2008, MassMutual Capital and Cerberus hold in the aggregate approximately 68.7% of our equity voting power, along with the right to designate two-thirds of the members of our Board of Directors.

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

We have accounted for the Convertible Cumulative Participating Preferred Shares in accordance with EITF D-98: "Classification and Measurement of Redeemable Securities". Dividends on the Convertible Cumulative Participating Preferred Shares are cumulative and accrete daily on a non-compounding basis at a rate of 7.25% per annum on the stated value of $600 million. Dividends only will be paid in a liquidation preference scenario upon our liquidation or change-in-control prior to the ninth anniversary. There have been no dividends accrued in the period as this scenario is not deemed probable at this time. As of December 31, 2008, the amount of dividends not accrued pursuant to the terms of the Convertible Cumulative Participating Preferred Shares is $72.3 million.

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

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

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

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

The Convertible Cumulative Participating Preferred Shares conversion price ($4.00 per ordinary share) was lower than the trading value of $4.66 of our ordinary shares on the date of issue. This discount has been accounted for as an embedded beneficial conversion feature in accordance with EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", and EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments". Accordingly the Company recognized a $120.8 million embedded beneficial conversion feature, which reduced the Convertible Cumulative Participating Preferred Share issue amount shown in Mezzanine Equity and increased the amount of additional paid in capital. Under the accounting guidance above, we had the choice to accrete the full intrinsic value of the embedded beneficial conversion feature out of retained earnings over the nine year term of the shares or immediately due to the ability of the holders to convert at their option at any time. Given the ability of the holders to convert at any time, we

elected to accrete the full intrinsic value of the embedded beneficial conversion feature on the date of issue. As we did not have any retained earnings on the date of issue, the $120.8 million beneficial conversion feature was accreted out of additional paid in capital into Mezzanine Equity.

Pursuant to our Securities Purchase Agreement, dated November 26, 2006 (the "Agreement") with MassMutual Capital and Cerberus, certain representations and warranties were provided relating to our statutory accounting records. As discussed in Note 21 "Commitments and Contingencies" certain statutory accounting errors were discovered in 2006 which has resulted in an indemnification claim against us. Resolution of this claim could result in a change in the conversion formula on these securities.

14. Shareholders' Equity

NYSE Delisting and Securities and Exchange Commission Deregistration

Our ordinary shares (new symbol SKRRF – PINKS) and perpetual preferred shares (new symbol SKRUF – PINKS) were delisted from the New York Stock Exchange as of April 7, 2008, and, therefore, we have no further reporting obligations under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We also had fewer than 300 holders of record of our securities as of January 1, 2008 and, as a result, our reporting obligations under Sections 13 and 15(d) of the Exchange Act, were suspended. On May 13, 2008, we filed a Form 15 indicating the suspension of our reporting obligations. As a result of the foregoing, notwithstanding the occurrence of material developments (either positive or negative), we are not required to make future public filings. Similarly, we no longer are required to issue press releases as we have in the past.

Ordinary Shares

We are authorized to issue 590,000,000 ordinary shares of par value $0.01 each.

No stock options were exercised during the years ended December 31, 2008 and 2007. During the year ended December 31, 2006, we issued 583,217 ordinary shares to employees upon the exercise of stock options. As more fully described in Note 16 "Employee Benefit Plans", we issued 388,313 ordinary shares to the holders of restricted stock awards on May 14, 2007. At December 31, 2008, there were 68,383,370 outstanding ordinary shares.

The following table summarizes the activity in our ordinary shares and non-cumulative Perpetual Preferred Shares during the years ended December 31, 2008, 2007 and 2006:

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Ordinary shares			
Beginning of year	68,383,370	60,554,104	53,391,939
Issuance to holders of HyCUs on conversion of purchase contracts	-	7,440,478	-
Issuance to holders of restricted stock awards	-	388,313	-
Ordinary shares issued	-	-	6,578,948
Issuance to employees on exercise of options and awards	-	475	583,217
End of year	68,383,370	68,383,370	60,554,104
Non-cumulative Perpetual Preferred Shares			
Beginning of year	5,000,000	5,000,000	5,000,000
Non-cumulative Perpetual Preferred Shares issued	-	-	-
End of year	5,000,000	5,000,000	5,000,000

Perpetual Preferred Shares

We are authorized to issue 50,000,000 preferred shares of par value $0.01 each.

On June 28, 2005, we priced our offering of 5,000,000 non-cumulative Perpetual Preferred Shares (the "Perpetual Preferred Shares") and entered into a purchase agreement relating to the shares pursuant to which the underwriters of the offering agreed to purchase the shares. Gross proceeds were $125 million and related expenses were $4.6 million. Settlement of the net proceeds occurred on July 6, 2005.

Dividends on the Perpetual Preferred Shares are payable on a non-cumulative basis at a rate per annum of 7.25% until the dividend payment date in July 2010. Thereafter, the dividend rate may be at a fixed rate determined through remarketing of the Perpetual Preferred Shares for specific periods of varying length not less than six months or may be at a floating rate reset quarterly based on a predefined set of interest rate benchmarks. During any dividend period, unless the full dividends for the current dividend period on all outstanding Perpetual Preferred Shares have been declared or paid, no dividend shall be paid or declared on our ordinary shares and no ordinary shares or other junior shares shall be purchased, redeemed or otherwise acquired for consideration. Declaration of dividends on the Perpetual Preferred Shares is prohibited if we fail to meet specified capital adequacy, net income or shareholders' equity levels.

The Perpetual Preferred Shares do not have a maturity date and we are not required to redeem the shares. The Perpetual Preferred Shares are not redeemable prior to July 2010. Subsequent to July 2010, the Perpetual Preferred Shares will be redeemable at our option, in whole or in part, at a redemption price equal to $25.00 per share, plus any declared and unpaid dividends at the redemption date, without accumulation of any undeclared dividends. The Perpetual Preferred Shares are unsecured and subordinated to all indebtedness that does not by its terms rank pari passu or junior to the Perpetual Preferred Shares. The holders of the Perpetual Preferred Shares have no voting rights except with respect to certain fundamental changes in the terms of the Perpetual Preferred Shares and in the case of certain dividend non-payments.

The Perpetual Preferred Shares are rated "C" by Standard & Poor's, "Ca" by Moody's, "C" by Fitch Ratings and "d" by A.M. Best Company at April 8, 2009.

Warrants

In connection with our initial capitalization, we issued Class A Warrants to related parties to purchase an aggregate of 1,550,000 ordinary shares. The aggregate consideration of $0.1 million paid for these Class A Warrants is reflected as additional paid-in capital. In connection with our initial public offering, we issued an aggregate of 1,300,000 Class A Warrants. All Class A Warrants are exercisable at $15.00 per ordinary share, in equal amounts over a three-year period commencing November 1999 and expiring in November 2008.

During the year ended December 31, 2003, we issued 200,000 ordinary shares upon the exercise of Class A Warrants. As at December 31, 2008, all Class A warrants had expired (2007 – 2,650,000 Class A warrants were outstanding).

Dividends on Ordinary Shares

The holders of the ordinary shares are entitled to receive dividends and are allowed one vote per share subject to certain restrictions in our Memorandum and Articles of Association.

On July 28, 2006, the Board of Directors suspended the dividend on the ordinary shares. All future payments of dividends are at the discretion of our Board of Directors and will depend on our income, capital requirements, insurance regulatory conditions, operating conditions and such other factors as the Board of Directors may deem relevant. Notwithstanding the foregoing, so long as any dividends remain outstanding from any prior dividend

period on our Perpetual Preferred Shares, as discussed below, we generally are precluded from paying or declaring any dividend on the ordinary shares.

Dividends on Perpetual Preferred Shares

On April 14, 2008, we announced that, given our current financial condition, our Board of Directors in its discretion had decided not to declare a dividend on our Perpetual Preferred Shares for the April 15, 2008 dividend payment date. In addition, we announced that pursuant to the Certificate of Designations for our Perpetual Preferred Shares we may be precluded from declaring and paying dividends on the October 15, 2008 dividend payment date in the event we did not meet certain financial tests under the terms of the Perpetual Preferred Shares required for us to pay such dividends, which tests we subsequently did not meet for such dividend payment date. On July 3, 2008, the Board determined that in light of our financial condition and in accordance with the terms of the then outstanding forbearance agreements with the relevant counterparties to the HSBC II and Clearwater Re collateral finance facilities, we would suspend the cash dividend for the July 15, 2008 payment date. In addition, as previously indicated we were precluded from declaring and paying dividends on the October 15, 2008 dividend payment date as we did not meet the relevant financial tests under the terms of the Perpetual Preferred Shares. In accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares, we were precluded from declaring and paying dividends on the January 15, 2009 and April 15, 2009 dividend payment dates and did not declare and pay a dividend on such dates.

In accordance with the Certificate of Designations, future dividends on the Perpetual Preferred Shares generally may be funded only to the extent they are payable out of our distributable profits, and/or the proceeds of a new issue of shares, and/or out of the Share Premium Account. At December 31, 2008, we had a shareholders' deficit of $2,410 million and therefore lacked, and expect to continue to lack in the near to mid term, sufficient distributable profits to fund a dividend. The Certificate of Designations provides that whenever dividends on the Perpetual Preferred Shares have not been declared and paid for six or more dividend periods, then the holders of the Perpetual Preferred Shares are entitled to vote for the election of two additional directors to the SRGL Board. The sixth nonpayment is expected to occur in connection with the July 15, 2009 dividend payment date.

15. Reinsurance

Premiums earned are analyzed as follows for the year ended:

(U.S. dollars in thousands)	December 31, 2008	December 31, 2007	December 31, 2006
Premiums assumed	$ 2,049,510	$ 2,131,584	$ 2,039,629
Premiums ceded	(398,404)	(358,196)	(320,390)
Premiums earned	$ 1,651,106	$ 1,773,388	$ 1,719,239

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 are net of reinsurance recoveries of $374.8 million, $241.4 million and $345.8 million during the years ended December 31, 2008, 2007 and 2006, respectively.

At December 31, 2008 and 2007, there were no reinsurance ceded receivables associated with a single reinsurer with a carrying value in excess of 1% of total assets.

16. Employee Benefit Plans

401(k) Plan

We sponsor a 401(k) plan in the United States 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 $1.5 million, $2.8 million and $2.4 million, in the years ended December 31, 2008, 2007 and 2006, respectively.

Stock Based Incentive Compensation Plans

2007 Stock Option Plan

On July 18, 2007, our shareholders approved and adopted the Scottish Re Group Limited 2007 Stock Option Plan ("2007 Plan"). The 2007 Plan provides for the granting of stock options to our eligible employees, directors and consultants. The total number of our shares reserved and available for issuance under the 2007 Plan is 18,000,000. The exercise price of stock options granted under the 2007 Plan is the fair market value of our ordinary shares on the date of grant and such options expire ten years after the date of grant, or such shorter period as determined by the Compensation Committee of our Board of Directors (unless earlier exercised or terminated pursuant to the terms of the 2007 Plan).

Options issued under the 2007 Plan vest as follows:

- 50% of an option grant to an employee or consultant vests based on the recipient's continued employment with us ("Time-Based Options"). 20% of the Time-Based Options vest on the grant date and an additional 20% vest in four equal installments on each of the first, second, third and fourth anniversary of the grant date, based on continued employment. The Time-Based Options are exercisable upon vesting.

- 50% of an option grant to an employee or consultant vests based on the achievement of certain performance targets as established by the Board with respect to each relevant fiscal year ("Performance-Based Options"). 10% of the Performance-Based Options vest following the close of each of the five fiscal years following the grant date, subject to our attainment of the performance targets established by the Board with respect to the relevant fiscal year. In addition, 10% of the Performance-Based Options vest following the close of each of the five fiscal years following the grant date, subject to the recipient's respective division's or segment's attainment of the performance targets established by the Board with respect to the relevant fiscal year. Although the Performance-Based Options may vest, they do not become exercisable until the end of the fifth fiscal year following May 7, 2007; provided, however, that if we achieved an "A-" rating or better from Standard & Poor's or AM Best within eighteen (18) months following the closing of the 2007 New Capital Transaction, all Performance-Based Options with regard to fiscal years 2007 and 2008 would fully vest and become exercisable. We did not satisfy this ratings goal within the 18 month period.

- 100% of options granted to directors vest on the grant date and are exercisable.

Upon a change of control (as defined in the 2007 Plan), to the extent not previously cancelled or forfeited, all Time-Based Options and Performance-Based Options become 100% vested and exercisable.

As of December 31, 2008, we had 6,260,417 options outstanding of which 4,356,250 options are exercisable. As of December 31, 2007, we had 7,450,607 options outstanding of which 4,188,019 options were exercisable.

Valuation of Options in 2007 Plan

Stock options are accounted for in accordance with SFAS No. 123(R). The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model, which uses the assumptions noted in the following table.

- *Expected dividend yield* – We suspended dividends on ordinary shares on July 28, 2006. Consequently, we have assumed 0% for the expected dividend yield.

- *Expected volatility* – The expected volatility is a measure of the amount by which a price has fluctuated and is expected to fluctuate during a period of time. The expected volatility of our stock is based on historical volatility.

- *Expected term* - The expected term represents the anticipated amount of time between the grant date of the option and the exercise date or cancellation date based on historical data.

- *Risk free interest rate* - The risk-free interest rate at the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Non-cash compensation expense incurred for stock options for the years ended December 31, 2008, 2007 and 2006 was $2 million, $11.1 million and $3.3 million, respectively. Non-cash compensation expense incurred for restricted stock options for the years ended December 31, 2008, 2007 and 2006 was $nil, $6.3 million and $(1.1) million. We recognize compensation costs for stock options based on the vesting schedule described above. A portion of the Time Based Options vest immediately and the remainder are earned evenly over the requisite service period. The Performance Based Options are earned evenly over the period from the grant date to vesting date. There was no tax benefit during the year ended December 31, 2008.

As of December 31, 2008 and 2007, there was $3.7 million and $5.7 million, respectively of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a period of up to five years or immediately upon a change in control. Upon a change in control, all stock options will immediately vest.

17. Income Taxes

For the years ended December 31, 2008, 2007 and 2006, we have income tax (benefit) expense from continuing operations, by jurisdiction, as follows:

(U.S. dollars in thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Current tax (benefit) expense:			
U.S.	$ -	$ 5,441	$ (4,112)
Ireland	-	(4,079)	1,698
Other non-U.S.	43	5,967	1,143
Total current tax (benefit) expense	43	7,329	(1,271)
Deferred tax (benefit) expense:			
U.S.	(9,957)	(168,621)	224,105
Ireland	(2,566)	3,936	8,501
Other non-U.S.	5,644	97	-
Total deferred tax (benefit) expense	(6,879)	(164,588)	232,606
Total worldwide tax (benefit) expense	$ (6,836)	$ (157,259)	$ 231,335

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, 2008, 2007 and 2006 is provided below:

(U.S. dollars in thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Pre-tax income (loss)	$ (2,676,007)	$ (1,026,017)	$ (74,514)
Expected tax provision at weighted average rate	(609,994)	(210,857)	(67,203)
Change in valuation allowance	617,973	65,677	293,958
Intercompany note cancellation	(6,154)	(48,846)	-
Other and state taxes	(8,661)	36,767	4,580
Total tax (benefit) expense	$ (6,836)	$ (157,259)	$ 231,335

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, 2008 and 2007, 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 Vehicles	Total
Operating loss carry forwards available at December 31, 2007	$ 218,992	$ 151,551	$ 802,095	$ 1,172,638
Operating losses accrued during 2008	151,651	281,924	1,010,614	1,444,189
Operating loss carry forwards available at December 31, 2008	$ 370,643	$ 433,475	$ 1,812,709	$ 2,616,827
Deferred tax asset for operating losses, before valuation allowance, at December 31, 2008	$ 126,893	$ 54,185	$ 453,177	$ 634,255

The operating loss carry forwards in our U.S. entities will expire, if not utilized, in years 2020 through 2028. 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, Orkney Re, Ballantyne Re, and Orkney Re II.

At December 31, 2008, we had an alternative minimum tax carry forward of approximately $8.6 million. There are no foreign tax credit carry forwards.

During 2008, 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, 2008 Scottish has 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, 2008 and 2007, all of which arise outside of our home country, were as follows:

(U.S. dollars in thousands)	December 31, 2008	December 31, 2007
Deferred tax asset		
Net operating losses	$ 634,255	$ 294,327
Reserves for future policy benefits	80,243	-
Unrealized depreciation on investments/Other than temporary impairments	153,938	26,968
Intangible assets	5,205	6,137
Alternative minimum tax credit	8,580	7,883
Capital loss carryforwards	1,733	11,009
Collateral finance facilities costs	7,993	932
Other	4,754	9,118
Total deferred tax asset	896,701	356,374
Deferred tax liability		
Deferred acquisition costs	(62,492)	(77,780)
Unrealized depreciation on investments	-	(5,955)
Reserves for future policy benefits	-	(53,947)
Present value of in-force	(13,636)	(14,232)
Other	(1,419)	(1,341)
Total deferred tax liability	(77,547)	(153,255)
Net deferred tax asset before valuation allowance	819,154	203,119
Valuation allowance	(816,314)	(198,341)
Net deferred tax asset	$ 2,840	$ 4,778

Certain errors in the 2007 deferred inventory balances were identified and corrected to conform with 2008 presentation. These corrections were as a result of an analysis of the Company's GAAP to tax differences. The corrections had no impact to the Company's net loss and shareholders' equity as of December 31, 2007.

At December 31, 2007, we had a valuation allowance of $198.3 million established against our deferred tax assets. We currently provide a valuation allowance against deferred tax assets when it is more likely than not that some portion, or all, of our deferred tax assets will not be realized. Our valuation allowance increased by approximately $618.0 million during the year ended December 31, 2008 to $816.3 million, primarily due to the 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.

FIN 48

On January 1, 2007, we adopted FIN 48. As a result of the implementation of FIN 48, we recorded a net decrease to our beginning retained earnings of $18.0 million reflecting the establishment of a FIN 48 liability of $75.3 million (excluding previously recognized liabilities of $6.5 million and including interest and penalties of $8.9 million) offset by a $57.3 million reduction of our existing valuation allowance. We had total unrecognized tax

benefits (excluding interest and penalties) of $72.6 million at January 1, 2007, the recognition of which would result in a $15.3 million benefit.

At December 31, 2007, we had total unrecognized tax benefits (excluding interest and penalties) of $187.1 million, the recognition of which would result in a $17.1 million benefit. At December 31, 2008, we had total unrecognized tax benefits (excluding interest and penalties) of $167.9 million, the recognition of which would result in a $16.9 million benefit to the effective tax rate. The statute of limitations expired for the 2004 U.S. federal income tax year, which resulted in a reduction of our unrecognized tax benefits in the amount of $21.9 million.

The following is a roll-forward of our FIN 48 unrecognized tax benefits from January 1, 2007 to December 31, 2008:

(U.S. dollars in thousands)	December 31, 2008	December 31, 2007
Total unrecognized tax benefits at beginning of year	$ 187,142	$ 72,625
Gross amount of decreases for prior year's tax position	(1,882)	-
Gross amount of increases for current year's tax position	4,549	114,705
Amount of decreases related to settlements	-	(165)
Reductions due to lapse of statutes of limitation	(21,945)	(59)
Foreign exchange and acquisitions	-	36
Total unrecognized tax benefits at end of year	167,864	187,142
Unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate	$ 16,920	$ 17,075

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

(U.S. dollars in thousands)	December 31, 2008	December 31, 2007
Total interest & penalties in the Balance Sheet at beginning of year	$ 13,281	$ 9,238
Total interest and penalties in the Statement of Operations	3,359	4,043
Total interest & penalties in the Balance Sheet at end of year	$ 16,640	$ 13,281

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 $15.4 million in 2009.

We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. As of December 31, 2008, 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	2005 through 2008
Non-Life Group	2005 through 2008
Ireland	2004 through 2008

18. Earnings per Ordinary Share

Basic earnings per share is computed based on the weighted average number of ordinary shares outstanding and assumes an allocation of net income to Convertible Cumulative Participating Preferred Shares for the period or portion of the period that this security is outstanding. We determined that, in accordance with EITF 98-5, the non-cash beneficial conversion feature recorded on issue of the Convertible Cumulative Participating Preferred Shares amounting to $120.8 million should be treated as a deemed dividend and deducted from the net loss attributable to ordinary shareholders for the purposes of calculating earnings per share in the year ended December 31, 2007. Under the provisions of SFAS No. 128, basic earnings per share are computed by dividing the net loss attributable to ordinary shareholders by the weighted average number of shares of our ordinary shares outstanding for the period.

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

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

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

(U.S. dollars in thousands, except share data)	December 31, 2008	December 31, 2007	December 31, 2006
Numerator:			
Loss from continuing operations	$ (2,667,316)	$ (869,419)	$ (304,481)
Income (loss) on discontinued operations, net of related taxes	(43,001)	(26,323)	(62,233)
Net loss	(2,710,317)	(895,742)	(366,714)
Dividend declared on non-cumulative Perpetual Preferred Shares	-	(9,062)	(9,062)
Dividend deemed or beneficial conversion feature	-	(120,750)	-
Imputed dividend on prepaid variable share forward contract	-	-	(881)
Net loss attributable to ordinary shareholders	$ (2,710,317)	$ (1,025,554)	$ (376,657)
Denominator:			
Denominator for basic and diluted loss per ordinary share - weighted average number of ordinary shares	68,383,370	67,303,066	56,182,222
Effect of dilutive securities*	-	-	-
Denominator for dilutive loss per ordinary share	68,383,370	67,303,066	56,182,222
Basic and diluted loss per ordinary share:			
Loss from continuing operations	$ (39.00)	$ (12.92)	$ (5.42)
Loss from discontinued operations	$ (0.63)	$ (0.39)	$ (1.11)
Net loss	$ (39.63)	$ (13.31)	$ (6.53)
Net loss attributable to ordinary shareholders	$ (39.63)	$ (15.24)	$ (6.70)

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

- Convertible Cumulative Participating Preferred Shares – 150,000,000 ordinary shares
- Stock options – 6,260,417 ordinary shares

19. Business Segments

We measure segment performance primarily based on income or loss before income taxes and minority interest. Our reportable segments are strategic business units that are primarily segregated by geographic region. We report segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information".

Our segments included in our continuing operations for the years ended December 31, 2008, 2007 and 2006 are Life Reinsurance North America and Corporate and Other. See Note 4 "Discontinued Operations" for a discussion

on the sales of the Wealth Management business, which previously was included in the Corporate and Other Segment and the Life Reinsurance International Segment.

The segment reporting for our continuing operations is as follows:

	Year Ended December 31, 2008		
(U.S. dollars in thousands)	**Life Reinsurance North America**	**Corporate & Other**	**Total**
Premiums earned, net	$ 1,651,106	$ -	$ 1,651,106
Fee and other income	8,803	-	8,803
Investment income, net	373,623	3,681	377,304
Net realized and unrealized losses	(1,891,211)	(4,684)	(1,895,895)
Gain on extinguishment of third party debt	19,437	-	19,437
Change in value of embedded derivatives, net	(216,041)	-	(216,041)
Total revenues	(54,283)	(1,003)	(55,286)
Claims and other policy benefits	1,579,412	-	1,579,412
Interest credited to interest sensitive contract liabilities	75,581	-	75,581
Acquisition costs and other insurance expenses, net	554,897	5,036	559,933
Operating expenses	60,081	77,900	137,981
Collateral finance facilities expense	254,471	3,441	257,912
Interest expense	9,902	-	9,902
Total benefits and expenses	2,534,344	86,377	2,620,721
Loss from continuing operations before income taxes and minority interest	$ (2,588,627)	$ (87,380)	$ (2,676,007)

	Year Ended December 31, 2007		
(U.S. dollars in thousands)	**Life Reinsurance North America**	**Corporate & Other**	**Total**
Premiums earned, net	$ 1,773,388	$ -	$ 1,773,388
Fee and other income	14,917	-	14,917
Investment income, net	577,256	9,073	586,329
Net realized losses	(969,494)	(3,426)	(972,920)
Gain on extinguishment of third party debt	20,043	-	20,043
Change in value of embedded derivatives, net	(43,627)	-	(43,627)
Total revenues	1,372,483	5,647	1,378,130
Claims and other policy benefits	1,473,563	-	1,473,563
Interest credited to interest sensitive contract liabilities	135,366	-	135,366
Acquisition costs and other insurance expenses, net	354,347	5,414	359,761
Operating expenses	53,358	74,840	128,198
Collateral finance facilities expense	274,734	14,364	289,098
Interest expense	12,726	5,435	18,161
Total benefits and expenses	2,304,094	100,053	2,404,147
Loss from continuing operations before income taxes and minority interest	$ (931,611)	$ (94,406)	$ (1,026,017)

(U.S. dollars in thousands)	Year Ended December 31, 2006 Life Reinsurance North America	Corporate & Other	Total
Premiums earned, net	$ 1,719,239	$ -	$ 1,719,239
Fee and other income (loss)	11,491	(140)	11,351
Investment income, net	584,359	7,627	591,986
Net realized (losses) gains	(19,043)	3,549	(15,494)
Change in value of embedded derivatives, net	(16,197)	-	(16,197)
Total revenues	2,279,849	11,036	2,290,885
Claims and other policy benefits	1,468,346	-	1,468,346
Interest credited to interest sensitive contract liabilities	172,967	-	172,967
Acquisition costs and other insurance expenses, net	360,737	4,867	365,604
Operating expenses	58,133	61,419	119,552
Collateral finance facilities expense	205,210	10,581	215,791
Interest expense	11,613	11,526	23,139
Total benefits and expenses	2,277,006	88,393	2,365,399
Gain (loss) from continuing operations before income taxes and minority interest	$ 2,843	$ (77,357)	$ (74,514)

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

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

Assets by segment for our continuing operations include:

(U.S. dollars in thousands)	December 31, 2008	December 31, 2007
Assets		
Life Reinsurance North America	$ 7,927,643	$ 11,546,033
Corporate and Other	99,211	104,897
Total	$ 8,026,854	$ 11,650,930

The following table summarizes the net premiums earned for Life Reinsurance North America by product offering for the years ended December 31, 2008, 2007 and 2006.

(U.S. dollars in millions)	Traditional	Financial Solutions	Total
Year Ended December 31, 2008			
Life Reinsurance North America	$ 1,626.0	$ 25.1	$ 1,651.1
Year Ended December 31, 2007			
Life Reinsurance North America	$ 1,737.2	$ 36.2	$ 1,773.4
Year Ended December 31, 2006			
Life Reinsurance North America	$ 1,681.7	$ 37.5	$ 1,719.2

20. Quarterly Financial Data (Unaudited)

Quarterly financial data for the year ended December 31, 2008 is as follows:

	Quarter Ended			
(U.S. dollars in thousands, except share data)	**December 31, 2008**	**September 30, 2008**	**June 30, 2008**	**March 31, 2008**
Total revenue	$ (67,309)	$ (33,150)	$ 214,226	$ (169,053)
Loss from continuing operations before income taxes and minority interest	$ (794,181)	$ (738,688)	$ (415,081)	$ (728,057)
Income (loss) on discontinued operations, net of related taxes	$ -	$ 8,776	$ (52,177)	$ 400
Net loss attributable to ordinary shareholders	$ (795,179)	$ (713,878)	$ (465,970)	$ (735,290)
Basic and diluted loss per ordinary share	$ (11.63)	$ (10.44)	$ (6.81)	$ (10.75)

Quarterly financial data for the year ended December 31, 2007 is as follows:

	Quarter Ended			
(U.S. dollars in thousands, except share data)	**December 31, 2007**	**September 30, 2007**	**June 30, 2007**	**March 31, 2007**
Total revenue	$ (153,737)	$ 379,865	$ 586,962	$ 565,040
Loss from continuing operations before income taxes and minority interest	$ (773,368)	$ (195,101)	$ (42,370)	$ (15,178)
Loss on discontinued operations, net of related taxes	$ (9,231)	(2,980)	$ (11,470)	$ (2,642)
Net (loss) income	$ (775,145)	$ (190,075)	$ 102,690	$ (33,212)
Deemed dividend on beneficial conversion feature related to convertible cumulative participating preferred shares	$ -	$ -	$ (120,750)	$ -
Loss attributable to ordinary shareholders	$ (777,410)	$ (192,341)	$ (20,326)	$ (35,477)
Basic and diluted loss per ordinary share	$ (11.37)	$ (2.81)	$ (0.30)	$ (0.55)

Computations of results per share for each quarter are made independently of results per share for the year. Due to rounding and transactions affecting the weighted average number of shares outstanding in each quarter, the sum of the quarterly results per share does not equal results per share for the year.

21. Commitments and Contingencies

Class Action and Shareholder Derivative Lawsuits

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

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

The complaint named SRGL; Dean E. Miller, its former Chief Financial Officer; Scott E. Willkomm, its former Chief Executive Officer; Elizabeth Murphy, its former Chief Financial Officer; SRGL's former Board members Michael Austin, Bill Caulfeild-Browne, Robert Chmely, Michael French, Lord Norman Lamont, Hazel O'Leary, and Glenn Schafer; and certain third parties, including Goldman Sachs and Bear Stearns in their capacities as underwriters in various securities offerings by SRGL and Ernst & Young LLP in their capacity as independent registered public accounting firm. The complaint was brought on behalf of a putative class consisting of investors who purchased SRGL's securities between February 17, 2005 and July 31, 2006. The complaint alleged violations of Sections 10(b) and 20(a) of the Exchange Act, Rule 10b-5, and Sections 11, 12(a) (2), and 15 of the Securities Act. The complaint sought an unspecified amount of damages, as well as other forms of relief. On March 7, 2007 SRGL filed a motion to dismiss the putative class action lawsuit. On November 2, 2007, the court dismissed the Section 10(b) and Rule 10b-5 claims against Ernst & Young LLP, but gave the plaintiffs leave to amend. The court denied the motions to dismiss brought by the other named defendants. In May, 2008, the parties held an initial mediation at which no settlement was reached. On June 16, 2008, all claims brought in the action against Glenn Schafer were dismissed without prejudice. Also on June 16, 2008, the plaintiffs filed a motion for leave to file an amended complaint. On July 11, 2008, the plaintiffs filed an amended complaint in which they sought to expand the class period, renew Section 10(b) and Rule 10b-5 allegations against Ernst & Young LLP, and assert additional factual allegations. On July 18, 2008, Ernst & Young LLP moved to dismiss the replied Section 10(b) claim against it as well as the proposed expanded class period and, on July 23, 3008, SRGL and the third-party underwriter defendants each filed motions to dismiss that portion of the amended complaint seeking to expand the class period. On July 30, 2008, the parties held a second mediation. On August 1, 2008, SRGL and its former officers and directors named in the complaint reached agreement in principle with the plaintiffs to settle the lawsuit and, on September 8, 2008, the court entered an order preliminarily approving the proposed settlement. In connection with the settlement, which formally was approved by the court on December 11, 2008, SRGL contributed $31 million, of which $5.75 million was paid by SRGL on October 7, 2008, and the additional $25.25 million was paid by SRGL's insurance carriers.

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

Indemnification

In connection with an examination of the statutory accounting books of certain of our operating insurance subsidiaries, and specifically, the purchase accounting entries made in connection with the 2004 acquisition of the ING business, we determined that certain intercompany receivables and intercompany claims were not reflected in the statutory financial statements of SRUS and 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 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.

Lease Commitments

We lease office space in the countries in which we conduct business under operating leases that expire at various dates through 2023. Total rent expense with respect to these operating leases for the years ended December 31, 2008, 2007 and 2006 was approximately $2.7 million, $3.1 million and $3.1 million, respectively.

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

(U.S. dollars in thousands) **Year ending December 31,**	
2009	$ 2,248
2010	2,016
2011	2,121
2012	1,831
2013	1,886
Thereafter	6,005
Total future lease commitments	$ 16,107

In 2008, operating leases for the London, Singapore and Japan offices were sold as part of the disposal of the Life Reinsurance International Segment. Operating leases for the Kentucky and Toronto offices expired during 2008 and were not renewed. As at December 31, 2008, we held operating leases for our Charlotte, Denver, Dublin and Bermuda offices.

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.

We have significant exposure to the residential mortgage market in the United States due to our concentration of sub-prime and Alt-A mortgage-backed securities held in our investment portfolio. The slowing U.S. housing market, greater use of affordable mortgage products, and relaxed underwriting standards for some originators of sub-prime loans has led to higher delinquency and loss rates, especially for those issued during 2007 and 2008. These factors have caused a decrease in market liquidity and repricing of risk, which has led to estimated fair value declines from December 31, 2007 to December 31, 2008. We expect delinquency and loss rates in the sub-prime mortgage sector to continue to increase in the future. Tranches of securities will experience losses according to the seniority of the claim on the collateral, with the least senior (or most junior), typically the unrated residual tranche, taking the initial loss. The credit ratings of the securities reflect the seniority of the securities that we own. As sub-prime and Alt-A loan performance has deteriorated, the market has become increasingly illiquid and unbalanced, with an absence of buyers, causing market prices to decrease and a decline in the estimated fair value of our bonds below their amortized cost. We have recognized substantial amounts of realized losses due to other-than-temporary impairments on our sub-prime portfolio and further declines in fair values of these securities will adversely affect our financial condition. Refer to Note 24 "Subsequent Events" for details of fair value declines subsequent to December 31, 2008.

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.

22. 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 deferred acquisition costs, limits the amount of deferred income tax net assets, limits or disallows certain intangible assets and, establishes reserves for invested assets and calculates 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.

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, 2008, SRD had surplus of 48% of liabilities, with a majority of our reinsurance operations novated to SALIC effective October 1, 2008.

Due to market value degradation and its impact on SRD's regulatory solvency, 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 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 (such trust assets remain in trust for the benefit of, and to support the business now ceded to SALIC by, SRUS). 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, the Irish insurance regulator notified the Company that corrective action needed to be taken with respect to SRD's solvency calculations. Absent this transfer, SALIC's obligations under such 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 is included in the Acquired Block sold to the Buyers. Following the closing of transactions contemplated by the Purchase Agreement with Hannover Re, SRD no longer reinsures any insurance or reinsurance liabilities either from third parties or its affiliates. Consequently, there can be no assurances that SRD will retain its license in the future. In such an event, the operating loss carry forwards for SRD disclosed in Note 17, "Income Taxes" may be lost.

Statutory Requirements for U.S. Subsidiaries

Our United States subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by insurance regulators. Except as otherwise noted in the statutory financial statements of SRUS, the State of Delaware adheres to NAIC risk-based capital ("RBC") requirements for Delaware domiciled life and health insurance companies. As of December 31, 2008 and 2007, 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 Insurance 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 can not pay dividends in 2009 without prior approval of the Insurance Commissioner.

The following table presents, for each of our U.S. reinsurance subsidiaries, the statutory capital and surplus as of December 31, 2008 and 2007, and the statutory net earned income (loss) for the years ended December 31, 2008, 2007 and 2006. The amounts shown in the table are those reflected in each company's most recent statutory financial statement filings with insurance regulators.

(U.S. dollars in thousands)	Statutory Capital & Surplus		Statutory Net Earned Income (Loss)		
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007	December 31, 2006
Scottish Re (U.S.), Inc.	$ 197,366	$ 232,301	$ (114,767)	$ (380,864)	$ (187,622)
Scottish Re Life Corporation.........	$ 66,445	$ 93,186	$ (19,421)	$ 7,396	$ (3,741)
Orkney Re, Inc..............................	$ 727,890	$ 844,994	$ (185,630)	$ (55,286)	$ (67,372)

The company action level risk based capital percentage at December 31, 2008 as filed with regulators on March 1, 2009 for SRUS, SRLC and Orkney Re was 206%, 237% and 1,665%, respectively. Subsequent to the 2008 U.S. statutory filings, the Company identified certain SRUS and SRLC inter-company balances as not being timely settled at December 31, 2008. As a result, these intercompany balances are non-admitted assets for statutory accounting purposes. The impact of non-admitting these inter-company balances reduces the company action level risk based capital percentages for SRUS and SRLC by 32% and 25%, respectively. Such inter-company balances have been or will be subsequently settled in the first half of 2009. The 2008 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, 2008.

During the year ended December 31, 2007, we redomesticated Orkney Re from South Carolina to Delaware. The statutory financial statements of Orkney Re are now presented on the basis of accounting practices prescribed or permitted by the Delaware Department of Insurance (the "Department"). The Department recognizes only statutory accounting practices prescribed or permitted by the state of Delaware 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 National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures ("AP&P") Manual has been adopted as a component of prescribed or permitted practices by the state of Delaware. Orkney Re establishes and maintains its reserves in accordance with U.S. GAAP as permitted by the Department rather than the statutory reserves prescribed by the NAIC AP&P Manual. Orkney Re's risk based capital as of December 31, 2007 would not have triggered a regulatory event had it not used the permitted practice. Orkney Re's risk based capital as of December 31, 2008 would have triggered a regulatory event had it not been permitted to use GAAP reserves instead of maintaining statutory reserves as prescribed by the NAIC AP&P Manual.

A reconciliation of Orkney Re's statutory balances as of December 31, 2008 and 2007 are as follows:

(U.S. dollars in thousands)	December 31, 2008	
	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)

(U.S. dollars in thousands)	December 31, 2007	
	Statutory Net Earned Income (Loss)	Statutory Capital & Surplus
Financial statements - Delaware basis	$ (55,286)	$ 844,994
Permitted valuation basis adjustment.......	(36,620)	(751,054)
Financial statements – NAIC basis	$ (91,906)	$ 93,940

The fair value of the securities in our qualifying reserve credit trust accounts has declined significantly due to the continued market value degradation in the U.S. capital markets. As a result of this decline, and even after giving effect to several of the transactions noted above, at the end of the third quarter 2008, absent a statutory accounting permitted practice, SRUS estimated there would be a shortfall in reserve credit. This shortfall in reserve credit would have placed significant financial stress upon the statutory capital position of SRUS and, in turn, the solvency of SALIC and SRGL because of obligations under certain net worth maintenance agreements in which SALIC pledged to maintain minimum capital and surplus levels of SRUS. As a result, SRUS requested and received approval from the Department for a permitted practice (the "Permitted Practice") with effect beginning as of September 30, 2008 related to SRUS' ongoing ability to take reserve credit for reinsurance ceded to Orkney Re I and Orkney Re II securitizations as well as the reinsurance currently ceded to SALIC. The Permitted Practice relieved SRUS of the need to receive, and SALIC of the corresponding obligation to fund additional capital contributions. The value of this Permitted Practice may increase over time generally as a result of increases in statutory reserves or decreases in market values. In connection with the Permitted Practice, SALIC agreed to contribute to SRUS $30.3 million in capital prior to SRUS filing its third quarter 2008 financial statements and an additional $7 million prior to SRUS filing its fourth quarter 2008 financial statements.

In approving the Permitted Practice, the Company and the Department agreed to the formal supervision of SRUS towards the end of 2008, and that such supervision would likely continue for as long as the Permitted Practice remained in place. Subsequently, on January 5, 2009, the Department issued an order of supervision (the "Order of Supervision") against SRUS, in accordance with 18 Del. C. §5942. The Order of Supervision, which pursuant to Delaware law was scheduled to expire on April 5, 2009, was amended and replaced with a Continued and Amended Order of Supervision, dated April 3, 2009 (the "Amended Order"). Pursuant to the Amended Order, the Company generally must receive prior written consent from the Department in order to engage in any transaction outside of the ordinary course of business; make certain payments or incur certain debts, obligations or liabilities in any transaction of $1,000,000 or greater (provided that this limitation does not apply to the payment of claims, premiums and other third party reinsurance settlements, in each case of less than $10 million per payment); engage in new business; lend any of its funds; invest any of its funds in a manner that deviates from the plan filed with the Department; commute, novate, amend or otherwise change any existing reinsurance contract or treaty; or engage in any transaction with any related party. Many of these processes already were informally in place between SRUS and the Department during much of 2008.

On February 17, 2009, citing, among other things, the current economic conditions and the uncertainty of the conditions that lay ahead, the Insurance 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 this requirement, SRUS 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 the Preferred Mortality Table 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 are effective for valuations on and after December 31, 2008. As at December 31, 2008, the effect of the Emergency Regulations on SRUS' capital and surplus was a positive $190 million. Accordingly, in the absence of the Emergency Regulations, SRUS' risk based capital as of December 31, 2008 may have resulted in further regulatory action against SRUS. As provided in each of the emergency orders, the Insurance Commissioner exposed each of the Emergency Regulations for public comment, which comment periods expired on April 6, 2009. Each emergency order pursuant to which the respective Emergency Regulation was promulgated remains effective until September 1, 2009, or until the applicable Emergency Regulation is adopted pursuant to the Delaware Administrative Procedures Act. In the event one, or both, of the Emergency Regulations expires without being adopted, and absent any other sufficient regulatory developments or concessions in its place, SRUS may become subject at such time to additional regulatory action.

A reconciliation of SRUS's statutory balances as of December 31, 2008 is as follows:

	December 31, 2008	
(U.S. dollars in thousands)	Statutory Net Earned Income (Loss)	Statutory Capital & Surplus
Financial statements - Delaware basis	$ (114,767)	$ 197,366
Permitted increase in reserve credit	-	(197,206)
Prescribed mortality table	-	(43,206)
Prescribed x-factor relief..........................	-	(146,662)
Financial statements – NAIC basis	$ (114,767)	$ (189,708)

SRUS did not utilize any permitted or prescribed practices during and as of the year ended December 31, 2007. SRLC did not utilize any permitted or prescribed practices during and as of the years ended December 31, 2008 and 2007.

23. Related Party Transactions

In connection with the 2007 New Capital Transaction on May 7, 2007, MassMutual Capital and Cerberus hold in the aggregate approximately 68.7% of our equity voting power at December 31, 2008, along with the right to designate two-thirds of the members of our Board of Directors.

We incurred $0.3 million and $0.2 million for consulting fees with Cerberus for the year ended December 31, 2008 and 2007, respectively. Also in connection with the 2007 New Capital Transaction, we paid fees totaling $2.6 million to Ableco Finance LLC, a related party of Cerberus, for an interim term loan facility put in place on March 9, 2007 and terminated on May 7, 2007.

For the year ended December 31, 2008 and 2007, we had premiums earned of $121.7 million and $121.4 million, respectively with MassMutual Capital. As at December 31, 2008 we had a net payable to MassMutual Capital of $5.7 million (2007 - $1.8 million).

We incurred $0.2 million for Board of Director fees payable to Babson Capital Management LLC, a subsidiary of MassMutual Capital for each of the years ended December 31, 2008 and 2007.

We also incurred $0.2 million and $0.1 million for investment management fee expenses for management of our Clearwater Re assets payable to Babson Capital Management LLC for the years ended December 31, 2008 and 2007, respectively.

For as long as the Cypress Entities in the aggregate beneficially own at least 2.5% of our outstanding voting shares on a fully diluted basis, they will be entitled to designate at least one individual for election to the Board of Directors. The Cypress Entities owned collectively 4.3% of our outstanding voting shares on a fully diluted basis as at December 31, 2008 and 2007.

Included in Other Investments are $4.7 million and $7.1 million at December 31, 2008 and 2007 respectively, for Investment in Cypress Sharpridge Investments, Inc., which is an affiliate of the Cypress Entities. During the year ended December 31, 2008, 2007 and 2006, we received $0.4 million, $1 million and $0.7 million in dividend income from our investment in Cypress Sharpridge.

24. Subsequent Events

Ballantyne Re

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.

Order of Supervision for SRUS

In approving the Permitted Practice, SRUS consented to the issuance by the Department on January 5, 2009 of an Order of Supervision against it, in accordance with 18 Del. C. §5942. The Order of Supervision subsequently was amended and continued on April 3, 2009 pursuant to the Amended Order. Pursuant to the Amended Order, SRUS generally must receive prior written consent from the Department in order to engage in any transaction outside of the ordinary course of business; make certain payments or incur certain debts, obligations or liabilities in any transaction of $1 million or greater (provided that this limitation does not apply to the payment of claims, premiums and other third party reinsurance settlements, in each case of less than $10 million per payment); engage in new business; lend any of its funds; invest any of its funds in a manner that deviates from the plan filed with the Department; commute, novate, amend or otherwise change any existing reinsurance contract or treaty; or engage in any transaction with any related party. Many of these processes already were informally in place between SRUS and the Department during much of 2008.

Non-declaration of Perpetual Preferred Shares dividends

In accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares, we were precluded from declaring and paying dividends on the January 15, 2009 and April 15, 2009 dividend payment dates. The Certificate of Designations provides that whenever dividends on the Perpetual Preferred Shares have not been declared and paid for six or more dividend periods, then the holders of the Perpetual Preferred Shares are entitled to vote for the election of two additional directors to the SRGL Board. The sixth nonpayment is expected to occur in connection with the July 15, 2009 dividend payment date.

Sale of a Block of Life Reinsurance North America Business

As previously disclosed, we engaged in a process to sell our entire Life Reinsurance North America Segment. In October 2008, following exclusive negotiations with a prospective buyer, 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 in our North American business. These efforts culminated in our announcement on February 20, 2009 that we completed the Purchase Agreement with Hannover Re to sell this block of 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 XXX reserves requirements and universal life policies with secondary guarantees subject to the AXXX reserves 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 formerly reinsured from SRUS to Ballantyne Re as this business was novated and assigned to SLD effective October 1, 2008. 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 have 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 and SRUS and SRLB have collateralized these obligations by depositing assets in trust accounts established for the benefit of SLD and SLDI.

The Purchase Agreement also relates 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 Re will administer 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 will administer the Acquired Business and provide 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 initial premium payments to the Buyers in an aggregate amount equal to $1,325 million (adjusted for interim period earnings from January 1, 2009 to the date of closing), and (iii) the Buyers 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 associated policyholder liabilities on the sale of the Acquired Business. The release of such liabilities is estimated to result in a pre-tax non-cash GAAP gain of approximately $700 million, after transaction expenses and related costs to be recognized in our consolidated GAAP financial statements in 2009. The estimated gain is subject to certain refund contingencies as described below. Subsequent to the sale of the Acquired Business, we still retain a substantial shareholders' deficit. The disposal of the Acquired Business constitutes a reconsideration event related to the consolidation of Ballantyne Re under FIN 46R. See Note 11, "Collateral Finance Facilities and Securitization Structures." Consequently, we are currently evaluating whether we remain the primary beneficiary of Ballantyne Re as defined within FIN 46R. In the event we conclude we are no longer the primary beneficiary of Ballantyne Re, we would de-consolidate Ballantyne Re in 2009. The de-consolidation of Ballantyne Re would reduce our consolidated total assets and liabilities by approximately $1,285 million and $2,035 million, respectively, and result in a one-time non-cash de-consolidation gain of approximately $750 million. This gain would have no impact on our current or future liquidity position.

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 currently cede to third parties certain risks related to the Acquired Business. If a certain amount of such third party retrocessionaires do not consent to such transfers prior to April 30, 2009, we are 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 such consent has not been obtained as of that date. Pursuant to the Purchase Agreement, in the event none of the retrocessionaires consent to transfer their agreements the maximum potential escrow funding amount is $136.3 million. In the event one or more retrocessionaire consents have not been obtained by December 31, 2009, the related escrow funds will be released to Hannover Re. Based upon the consents to transfer that have been obtained as of April 28, 2009, we currently estimate the actual escrow funding at May 14, 2009, and therefore the maximum potential escrow fund release to Hannover Re at December 31, 2009, not to exceed $11 million. In an effort to further reduce the escrow funds and the potential year end escrow release to Hannover Re, we will continue to use best efforts to obtain the remaining retrocessionaire consents prior to December 31, 2009. However, there can be no assurances that we will be successful in obtaining any additional consents.

Run-Off Strategy

We expect to follow a run-off strategy for the remaining business in our Life Reinsurance North America Segment, whereby we will continue to receive premiums, pay claims and perform key activities under our existing reinsurance treaties. Through expense reductions and management of investments and reinsurance cash flows, our goal is to meet our reinsurance and other obligations over time 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. In light of our run-off strategy, and given the completion of all of the actions taken over the past year, our Special Committee was terminated on February 28, 2009.

Premium Asset Trust Certificates Due March 12, 2009

Through negotiated repurchases, we extinguished the $100 million payment obligation falling due on March 12, 2009, in respect of the PATS funding agreement to which SALIC was a party for a significant discount to par on an aggregate basis. Following the satisfaction of the PATS funding agreement, our nearest term remaining debt obligations are the Stingray funding agreements which are outstanding in the amount of $325 million and mature in January 2015.

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 (as outlined in Note 12 to the Consolidated Financial Statements). These deferrals are permitted by terms of the indentures governing the securities and have been made at the discretion of our board to preserve liquidity. We intend to continue to defer such interest payments to maximize liquidity. To date we have deferred $1.8 million of interest.

Ballantyne Re Recapture

Effective March 31, 2009, the ING Companies transacted the Fifth Recapture, on a pro-rata basis, of 3.6% of the original Ballantyne Business. Immediately following the Fifth Recapture, and effective as of March 31, 2009, SLD ceded the recaptured business to SLDI, which in turn immediately retroceded it to an affiliate of Hannover Re. The market value of the assets transferred was $23.6 million.

Decline in Fair Values of Invested Assets

Investments have continued to deteriorate during 2009. As at March 31, 2009, our invested assets have experienced market value declines of approximately $144.2 million since December 31, 2008 in addition to that recognized in our Consolidated Statement of Operations as a component of net realized and unrealized losses for the year ended December 31, 2008. In addition, the adverse market conditions have impacted the value of the underlying collateral used to secure our life reinsurance obligations and statutory reserves.

A large portion of the net realized and unrealized losses are primarily held in our three securitization structures, Ballantyne Re, Orkney Re and Orkney Re II. Although these securitization structures are without recourse to us, they are consolidated in our financial statements under U.S. GAAP. Changes in the fair value of investments within Orkney Re and Orkney Re II can adversely impact our reported financial results and the statutory reserve credit that SRUS is able to recognize for these transactions. Following the Assignment, Ballantyne Re no longer impacts the statutory reserve credit of SRUS. As of December 31, 2008, SRUS maintained risk based capital levels in excess of statutory minimums on the basis of accounting practices permitted or prescribed by the Department including the Permitted Practice and the Emergency Regulations.