SCOTTISH RE GROUP LIMITED

FINANCIAL STATEMENTS

FOR THE QUARTERLY PERIOD ENDED

MARCH 31, 2009

(Issued on June 30, 2009)

(These financial statements are unaudited and have not been reviewed by our independent public accountants.)

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

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
Fixed maturity investments, trading at fair value	$ 2,750,261	$ 3,781,104
Preferred stock, trading at fair value	72,900	79,767
Cash and cash equivalents	504,239	824,613
Other investments	22,862	22,772
Funds withheld at interest	571,973	1,748,768
Total investments	3,922,235	6,457,024
Accrued interest receivable	25,047	35,473
Reinsurance balances and risk fees receivable	124,454	353,579
Deferred acquisition costs	345,454	375,475
Amount recoverable from reinsurers	613,700	711,576
Present value of in-force business	39,725	40,105
Other assets	54,958	41,750
Current income tax receivable	8,672	8,811
Deferred tax asset	3,061	3,061
Total assets	$ 5,137,306	$ 8,026,854
LIABILITIES		
Reserves for future policy benefits	$ 1,670,259	$ 4,011,053
Interest sensitive contract liabilities	1,880,918	2,025,554
Collateral finance facilities	1,300,000	3,000,000
Accounts payable and other liabilities	131,236	459,792
Reinsurance balances payable	161,337	248,065
Deferred tax liability	221	221
Long term debt	129,500	129,500
Total liabilities	5,273,471	9,874,185
MEZZANINE EQUITY		
Convertible cumulative participating preferred shares, (liquidation preference, $683.1 million)	555,857	555,857
Total mezzanine equity	555,857	555,857
Commitments and contingencies (Note 14)		
DEFICIT		
Scottish Re Group Limited shareholders' deficit		
Ordinary shares, par value $0.01:		
Issued 68,383,370 shares (2009 and 2008 – 68,383,370)	684	684
Non-cumulative perpetual preferred shares, par value $0.01:		
Issued: 5,000,000 shares (2009 and 2008 – 5,000,000)	125,000	125,000
Additional paid-in capital	1,216,883	1,216,878
Retained deficit	(2,041,296)	(3,752,716)
Total Scottish Re Group Limited shareholders' deficit	(698,729)	(2,410,154)
Noncontrolling interest	6,707	6,966
Total deficit	(692,022)	(2,403,188)
Total liabilities, mezzanine equity and total deficit	$ 5,137,306	$ 8,026,854

See Accompanying Notes to Consolidated Financial Statements
(Unaudited and not reviewed by our independent public accountants.)

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

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

	Three months ended	
	March 31, 2009	**March 31, 2008**
Revenues		
Premiums earned, net	$ 99,386	$ 398,203
Fee and other income	2,350	2,641
Investment income, net	44,190	103,940
Net realized and unrealized losses	(111,261)	(662,330)
Gain on Ballantyne Re de-consolidation	1,150,114	-
Gain on extinguishment of Premium Asset Trust Series debt	53,545	-
Change in value of embedded derivatives, net	280,285	(11,507)
Total revenues, net	1,518,609	(169,053)
Benefits and expenses		
Claims and other policy benefits	(290,246)	343,678
Interest credited to interest sensitive contract liabilities	17,270	21,057
Acquisition costs and other insurance expenses, net	38,836	90,443
Operating expenses	26,495	39,916
Collateral finance facilities expense	12,051	61,027
Interest expense	1,938	2,883
Total benefits and expenses	(193,656)	559,004
Income (loss) from continuing operations before income taxes	1,712,265	(728,057)
Income tax expense	(1,104)	(7,749)
Income (loss) from continuing operations	1,711,161	(735,806)
Income from discontinued operations, net of related taxes	-	400
Consolidated net income (loss)	1,711,161	(735,406)
Net income attributable to noncontrolling interest	259	116
Net income (loss) attributable to ordinary shareholders	1,711,420	(735,290)
Basic income (loss) per ordinary share:		
Net income (loss)	$ 25.03	$ (10.75)
Net income (loss) attributable to ordinary shareholders	$ 24.67	$ (10.75)
Diluted income (loss) per ordinary share:		
Net income (loss)	$ 7.84	$ (10.75)
Net income (loss) attributable to ordinary shareholders	$ 7.84	$ (10.75)
Weighted average number of ordinary shares outstanding		
Basic	68,383,370	68,383,370
Diluted	218,383,370	68,383,370

See Accompanying Notes to Consolidated Financial Statements
(Unaudited and not reviewed by our independent public accountants.)

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

(Expressed in Thousands of United States dollars)

	Three months ended	
	March 31, 2009	**March 31, 2008**
Net income (loss) attributable to ordinary shareholders	$ 1,711,420	$ (735,290)
Other comprehensive income (loss):		
Unrealized depreciation on investments	-	-
Reclassification adjustment for net realized and unrealized losses included in net loss	-	(26,292)
Net unrealized depreciation on investments, net of income taxes and deferred acquisition costs...	-	(26,292)
Cumulative translation adjustment	-	5,246
Other comprehensive loss	-	(21,046)
Comprehensive loss	$ 1,711,420	$ (756,336)
Comprehensive loss attributable to the noncontrolling interest	-	(18)
Comprehensive income (loss) attributable to ordinary shareholders	$ 1,711,420	$ (756,354)

See Accompanying Notes to Consolidated Financial Statements
(Unaudited and not reviewed by our independent public accountants.)

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

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

	Three months ended	
	March 31, 2009	**March 31, 2008**
Share capital:		
Ordinary shares:		
Beginning and end of period	$ 684	$ 684
Non cumulative perpetual preferred shares:		
Beginning and end of period	125,000	125,000
Additional paid-in capital:		
Beginning of period	1,216,878	1,214,886
Option and restricted stock unit expense	5	661
End of period	1,216,883	1,215,547
Accumulated other comprehensive income (loss):		
Unrealized appreciation (depreciation) on investments net of income taxes and deferred acquisition costs		
Beginning of period	-	26,310
Change in period	-	(26,310)
End of period	-	-
Cumulative translation adjustment		
Beginning of period	-	24,590
Change in period (net of tax)	-	5,246
End of period	-	29,836
Benefit plans		
Beginning and end of period	-	(2,344)
Total accumulated other comprehensive income (loss)	-	27,492
Retained deficit:		
Beginning of period	(3,752,716)	(1,042,399)
Net income (loss)	1,711,420	(735,290)
End of period	(2,041,296)	(1,777,689)
Total Scottish Re Group Limited shareholders' deficit	$ (698,729)	$ (408,966)
Noncontrolling interest:		
Beginning of period	6,966	9,025
Change in period (net of tax)	(259)	(98)
End of period	6,707	8,927
Total deficit	$ (692,022)	$ (400,039)

See Accompanying Notes to Consolidated Financial Statements
(Unaudited and not reviewed by our independent public accountants.)

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

(Expressed in Thousands of United States dollars)

	Three months ended	
	March 31, 2009	**March 31, 2008**
Operating activities		
Net income (loss) attributable to ordinary shareholders	$ 1,711,420	$ (735,290)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net realized (gains) losses	111,262	661,311
Gain on extinguishment of debt	(53,545)	-
Non cash gain on de-consolidation of Ballantyne Re	(1,150,114)	-
Changes in value of embedded derivatives, net	(280,285)	11,507
Amortization of discount on fixed maturity investments and preferred stock	-	939
Amortization of deferred acquisition costs	5,683	32,337
Amortization and write down of present value of in-force business	380	905
Write-off of fixed assets associated with the sale of the Acquired Business	6,289	-
Amortization of deferred transaction costs	768	2,233
Depreciation of fixed assets	386	2,854
Option and restricted stock unit expense	5	661
Net loss attributable to noncontrolling interest	(259)	(116)
Changes in assets and liabilities:		
Accrued interest receivable	10,427	3,561
Reinsurance balances and risk fees receivable	142,398	250,713
Deferred acquisition costs	24,338	(19,602)
Deferred tax asset and liability	-	8,569
Other assets	(261,872)	9,529
Current income tax receivable and payable	139	(509)
Reserves for future policy benefits, net of amounts recoverable from reinsurers	(2,001,019)	58,654
Funds withheld at interest	1,176,795	(162,868)
Interest sensitive contract liabilities	(1,530)	11,733
Accounts payable and other liabilities	45,828	(15,168)
Net cash (used in) provided by operating activities	(512,506)	121,953
Investing activities		
Purchase of fixed maturity investments	(304,152)	(129,362)
Proceeds from sales of fixed maturity investments	502,960	212,829
Proceeds from maturity and return of capital of fixed maturity investments	82,471	147,385
Proceeds from sale and maturity of preferred stock	1,550	170
Purchase of and proceeds from other investments	(310)	702
Purchase of fixed assets	-	(1,214)
Net cash provided by investing activities	282,519	230,510
Financing activities		
Deposits to interest sensitive contract liabilities	(2,689)	4,208
Withdrawals from interest sensitive contract liabilities	(87,698)	(103,973)
Payments on collateral finance facilities	-	(54,137)
Proceeds from drawdown of Stingray facility	-	275,000
Net cash (used in) provided by financing activities	(90,387)	121,098
Net change in cash and cash equivalents	$ (320,374)	$ 473,561
Cash and cash equivalents, beginning of period	824,613	822,851
Cash and cash equivalents, end of period	$ 504,239	$ 1,296,412

See Accompanying Notes to Consolidated Financial Statements
(Unaudited and not reviewed by our independent public accountants.)

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.

Strategic Focus

As noted in our audited consolidated financial statements and notes thereto for the year ended December 31, 2008, we have faced a number of significant challenges over the past several years which required us to change our strategic focus. On February 22, 2008, we announced our pursuit of the following key strategies:

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

These strategic alternatives materially impacted the conduct of our business. 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 placed our remaining treaties into run-off.

During the remainder of 2008 and the first quarter of 2009, we took steps to execute on the strategic alternatives listed above. Below is a summary of 2008 dispositions, as well as strategic events impacting our financial statements for the quarter ending March 31, 2009. For a complete list of 2008 strategic actions, see our audited consolidated financial statements and notes thereto for the year ended December 31, 2008.

- 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 Scottish Annuity & Life Insurance Company (Cayman) Ltd. ("SALIC").

- On January 22, 2009, the Company, Scottish Holdings, Inc. ("SHI"), Scottish Re (U.S.), Inc. ("SRUS"), Scottish Re Life (Bermuda) Limited ("SRLB") and Scottish Re (Dublin) Limited ("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 Life Reassurance (Ireland) Limited (together, "Hannover Re"), and Security Life of Denver Insurance Company ("SLD") and Security Life of Denver International Limited ("SLDI" and together with SLD, the "ING Companies"), pursuant to which Hannover Re agreed to purchase from the Sellers a block of individual life reinsurance business acquired in 2004 from the ING Companies, which block consisted primarily of term life reinsurance, universal life with secondary guarantees, and yearly renewable term business (the "Acquired Business"). The Acquired Business did not include business formerly reinsured from SRUS to Ballantyne Re plc ("Ballantyne Re"), as this business was novated and assigned to SLD effective October 1, 2008. 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 of the Acquired Business by the ING Companies from certain of the Sellers, 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 certain 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 until December 31, 2009 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 resulted in a pre-tax gain of $703.6 million, after transaction expenses and related costs. This gain is also subject to certain contingencies, which reduced the pre-tax gain recognized in the first quarter of 2009 to $642.4 million. This gain did not generate any cash proceeds and has limited impact on our current liquidity position. See Note 11, "Sale of Block of Life Reinsurance North America Business" for a summary of the components of the pre-tax gain, including additional details on the gain contingencies.

- As of January 1, 2009, Ballantyne Re no longer is consolidated within the financial statements of Scottish Re Group Limited. Pursuant to the Purchase Agreement, Hannover Re explicitly agreed to assume the mortality risk for all recaptures of business from Ballantyne Re (as was evident by a first quarter 2009 recapture by SLD from Ballantyne Re and subsequent retrocession of the recaptured business to Hannover Re). Hannover's recapture from Ballantyne Re constituted a reconsideration event related to the consolidation of Ballantyne Re under FIN 46R. We subsequently have completed a primary beneficiary analysis and have concluded that we no longer are the primary beneficiary of Ballantyne Re as defined within FIN 46R. The impact of de-consolidating Ballantyne Re results in a one-time non-cash gain of $1,150 million and has no impact on our current or future liquidity position. For further discussion on the impact of de-consolidation of Ballantyne Re, see Note 12, "De-consolidation of Ballantyne Re" in these financial statements.

- 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. Under the terms of these securities, we are entitled to defer interest payments for up to 20 consecutive quarterly periods. See Note 6, "Debt and Other Funding Agreements".

- Through negotiated repurchases, we extinguished on an aggregate basis 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, resulting in a gain on extinguishment of $53.5 million. See Note 6, "Debt and Other Funding Agreements".

Regulatory Considerations

- The fair value of the securities in certain qualifying reserve credit trust accounts has declined significantly, in recent periods 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 plc ("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, Inc. and Orkney Re II plc ("Orkney II") securitizations as well as the reserve credit trusts with respect to reinsurance ceded to SALIC. 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 obligations and processes already informally implemented between SRUS and the Department during 2008. The original Order of Supervision was set to lapse on April 5, 2009 (and every 90 days thereafter pursuant to Delaware regulation), but it was subsequently amended and replaced with an Amended and Extended Order of Supervision, dated April 3, 2009 (the "Amended Order") which amends and clarifies certain matters contained within the original Order of Supervision. See Note 10, "Order of Supervision for SRUS".

- 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 Insurance 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 Insurance Commissioner'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 implementation of the Emergency Regulations resulted in a $190 million increase in SRUS' statutory capital and surplus. 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.

Run-off Strategy

With the completion of the foregoing actions and continued compliance with the supervision requirements of the Department, we expect to pursue a run-off strategy for the remaining business, whereby we will continue to receive premiums, pay claims and perform key activities under our remaining reinsurance treaties. Through expense reductions and management of investments and reinsurance cash flows, our goal is to meet our reinsurance and other obligations and to maintain a risk based capital ratio above the company action level prescribed by Delaware law and above any risk based capital-based recapture thresholds in our reinsurance agreements with ceding companies. No assurances can be given that we will be successful in implementing this strategy. In light of our run-off strategy, and given the completion of the strategic alternatives outlined above, the Special Committee, which was formed by our Board of Directors (the "Board") on January 21, 2008, to evaluate the strategic alternatives developed by the Board in early 2008 was terminated on February 28, 2009.

Business

We have 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. With the sale of the Wealth Management business and Life Reinsurance International segment in 2008, together with the sale of the Acquired Business in our Life Reinsurance North America segment in the first quarter of 2009, operating decisions and performance assessment of the Company is now performed without reference to any separate segments. Accordingly, we do not present information about distinct operating segments for periods after January 1, 2009.

We have assumed risks associated with primary life insurance, annuities and annuity-type policies. We reinsure mortality, investment, persistency and expense risks of United States life insurance and reinsurance companies. Most of the reinsurance assumed is through automatic treaties, but in 2006 we also began assuming risks on a facultative basis. We suspended bidding for new business treaties on March 3, 2008, and issued notices of cancellation for all open treaties. 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.

2. Basis of presentation

Basis of Presentation

The consolidated interim financial statements contained herein as of and for the three month period ended March 31, 2009 have not been subject to review by the Company's independent public accountants.

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. These unaudited consolidated financial statements should be read in conjunction with both the audited consolidated financial statements and notes thereto for the year ended December 31, 2008.

Going Concern – These consolidated financial statements have been prepared using accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. Our ability to continue as a going concern is dependent upon our ability to successfully meet our obligations in a manner that addresses ongoing regulatory requirements and capital, liquidity and collateral needs. There can be no assurance that any of 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. We have a shareholders' deficit of $698.7 million as of March 31, 2009.

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

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. As at March 31, 2009, we consolidate two non-recourse securitizations, Orkney Re and Orkney Re II. See Note 12, "De-consolidation of Ballantyne Re".

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;
- 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.

3. Recent Accounting Pronouncements

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 de-consolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment. Entities must provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We included the enhanced disclosures required by SFAS No. 160 in our consolidated financial statements beginning in the reporting period ended March 31, 2009.

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.

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. The adoption of SFAS No. 161 will not 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 for financial statements for interim or annual periods ending on or after September 15, 2009. We do not anticipate that SFAS No. 162 will have a material impact on our financial condition or 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 140-4 and FIN 46(R)-8, *"Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities"* ("FSP 140-4"). FSP 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 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 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 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 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 140-4 in the notes to the consolidated financial statements beginning in the reporting period ended December 31, 2008.

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.

FASB Statement No. 165, Subsequent Events

In May 2009, the FASB issued SFAS No. 165, *"Subsequent Event"* ("SFAS No. 165"). This statement is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for the date – that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after the date in the set of financial statements being presented. SFAS No. 165 is effective for fiscal years, and interim periods within those fiscal years, ending after June 15, 2009. We believe we are compliant with the subsequent event guidelines and do not expect an impact of the adoption of SFAS No. 165 on our consolidated financial condition and results of operations.

FASB Statement No. 166, Accounting for Transfers of Financial Assets

In June 2009, the FASB issued SFAS No. 166, *"Accounting for Transfers of Financial Assets"* ("SFAS No. 166"). SFAS no. 166 is issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting and for interim and annual reporting period thereafter. Earlier application is prohibited. This statement must be applied to transfers occurring on or after the effective date. We are currently evaluating the potential impact of the adoption of SFAS No. 166 on our consolidated financial condition and results of operations.

FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R)

In June 2009, the FASB issued SFAS No. 167, *"Amendments to FASB Interpretation No. 46(R)"* ("SFAS No. 167"). This statement amends Interpretation 46(R) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or variable interests give it a controlling financial interest in a variable interest entity. SFAS No. 167 also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This statement shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. We are currently evaluating the potential impact of the adoption of SFAS No. 167 on our consolidated financial condition and results of operations.

4. Investments

Effective January 1, 2008, our invested assets were classified as trading and the balances in fixed maturity investments - available-for-sale and preferred stock – available-for-sale were transferred to trading securities. Additionally, as of January 1, 2008, the balance of unrealized appreciation on investments of $38.5 million, 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 three months ended March 31, 2009 that relates to trading securities still held at the reporting date is $123.6 million.

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

Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker prices or internally developed models or methodologies utilizing significant inputs not based on, or corroborated by, readily available market information. This category primarily consists of certain less liquid fixed maturity and equity securities where we cannot corroborate the significant valuation inputs with market observable data. Additionally, 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 is generally 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 following table sets forth our assets and liabilities that are measured at fair value on a recurring basis as of the date indicated:

	March 31, 2009			
(U.S. dollars in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments				
Fixed maturity investments	$ 2,750.3	$ -	$ 2,063.5	$ 686.8
Preferred stock	72.9	-	25.0	47.9
Total assets at fair value	$ 2,823.2	$ -	$ 2,088.5	$ 734.7
Funds withheld at interest – embedded derivatives	(67.2)	-	-	(67.2)
Total liabilities at fair value	$ (67.2)	$ -	$ -	$ (67.2)

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**	**Total**
Beginning balance at January 1, 2009	$ 813.0	$ (347.5)	$ 465.5
Total realized and unrealized gains (losses) included in net loss	(80.0)	280.3	200.3
Purchases, issuances and settlements	10.8	-	10.8
Transfers in and/or out of Level 3	(9.1)	-	(9.1)
Ending balance at March 31, 2009	$ 734.7	$ (67.2)	$ 667.5

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

6. Debt and Other Funding Arrangements

Stingray Drawdown

On January 12, 2005, we entered into a put agreement with Stingray Investor Trust ("Stingray") for an aggregate value of $325 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 46(R), 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 March 31, 2009.

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 was included under interest sensitive contract liabilities on the Consolidated Balance Sheet.

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. This resulted in an aggregate consideration of $46.5 million compared to the $100 million par value of the PATS. Consequently, in accordance with SFAS No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Liabilities – A Replacement of FASB Statement 125*," the Company has recorded a gain on the extinguishment of the PATS debt of $53.5 million in the first quarter of 2009. The funding agreements are included in interest sensitive contract liabilities in the accompanying Consolidated Balance Sheet.

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

In order to further preserve liquidity, we began deferring interest payments as of March 4, 2009 on our floating rate capital securities and trust preferred securities issued and sold through certain statutory trusts established by us. These deferrals are permitted by 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. As of March 31, 2009, we have accrued and deferred payment of $3.2 million of interest. During the period of any deferral, SHI and SALIC are restricted in their ability to make dividend payments.

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 dividend payment date. 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 elect two additional directors to the SRGL Board. The sixth nonpayment is expected to occur in connection with the July 15, 2009 dividend payment date.

7. Mezzanine Equity

Convertible Cumulative Participating Preferred Shares

On May 7, 2007, we completed the equity investment transaction by MassMutual Capital Partners LLC ("MassMutual Capital"), a member of the MassMutual Financial Group, and SRGL Acquisition, LDC, an affiliate of Cerberus Capital Management, L.P. ("Cerberus"), announced by us on November 27, 2006 (the "2007 New Capital Transaction"). Pursuant to the 2007 New Capital Transaction, MassMutual Capital and Cerberus invested an aggregate $600 million in us in exchange for 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 March 31, 2009, 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.

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 March 31, 2009, the amount of dividends not accrued pursuant to the terms of the Convertible Cumulative Participating Preferred Shares is $83.1 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 14 “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.

8. Income Taxes

Income tax expense for the three months ended March 31, 2009 was $1.1 million, compared to $7.6 million in the same period in 2008. The change in our income tax expense for the quarter ended March 31, 2009, compared to the same period in 2008 was primarily related to an increase in the valuation allowance for the period ended March 31, 2008 compared to a decrease in valuation allowance in the current period.

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. At March 31, 2009, we had total unrecognized tax benefits (excluding interest and penalties) of $146.3 million, the recognition of which would result in a $17.4 million benefit to the effective tax rate. The decrease in the total unrecognized tax benefits was due to the removal of the Ballantyne Re FIN 48 reserve.

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

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

Major Tax Jurisdictions	**Open Years**
U.S.	
Life Group	2005 through 2008
Non-Life Group	2005 through 2008
Ireland	2004 through 2008

9. 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 is to be treated as a deemed dividend and deducted from the net loss attributable to ordinary shareholders for the purposes of calculating earnings per share. Under the provisions of SFAS No. 128, basic earnings per share are computed by dividing the net loss attributable to ordinary shareholders by the weighted average number of shares of our ordinary shares outstanding for the period.

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)	Three months ended March 31, 2009	Three months ended March 31, 2008
Basic income (loss) attributable to ordinary shareholders		
Numerator:		
Net income (loss)	$ 1,711,420	$ (735,290)
Amounts allocable to convertible participating preferred shares	(24,666)	-
Net income (loss) attributable to ordinary shareholders	$ 1,686,754	$ (735,290)
Denominator:		
Denominator for basic income per ordinary share - weighted average number of ordinary shares	68,383,370	68,383,370
Basic income (loss) attributable to ordinary shareholders	$ 24.67	$ (10.75)
Diluted income (loss) attributable to ordinary shareholders		
Numerator:		
Net income (loss)	$ 1,711,420	$ (735,290)
Net income (loss) attributable to ordinary shareholders	$ 1,711,420	$ (735,290)
Denominator:		
Denominator for basic income per ordinary share - weighted average number of ordinary shares	68,383,370	68,383,370
Effect of dilutive securities*	150,000,000	-
Denominator for dilutive income per ordinary share	218,383,370	68,383,370
Diluted income (loss) attributable to ordinary shareholders	$ 7.84	$ (10.75)

* 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 – 5,491,635 ordinary shares

10. 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 with the issuance of 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.

11. 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 the announcement on February 20, 2009 that we had 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 Ballantyne Re as this special purpose reinsurance vehicle was novated and assigned to SLD effective October 1, 2008. However, the Acquired Business does include the business recaptured from Ballantyne Re in connection with a series of recaptures during 2008 in which SRUS recaptured business from Ballantyne Re, which business then was recaptured by SLD. SLD in turn ceded the recaptured business to SLDI who ceded it to SRLB. The foregoing recaptures, (collectively, the “Ballantyne Recaptures”), as well as the business recaptured in connection with the unwind of our collateral finance facility with HSBC Bank (together with the Ballantyne Recaptures, the “ING Financings”). In connection with each of the ING Financings, SLD ceded the applicable recaptured business to SLDI, which ceded the recaptured business to SRLB. SLDI agreed to provide, or cause the provision of, one or more letters of credit (“LOCs”) in order to provide SLD with statutory financial statement credit for the excess reserves associated with the recaptured business in respect of the ING Financings. As partial consideration for each of the ING Financings, the Company agreed to bear the costs of the LOCs by paying SLD a facility fee based on the face amount of such LOCs outstanding. The cost of these LOCs was consistent with the pricing schedules from the Company’s 2004 acquisition agreement with ING Companies, as such schedule was amended on May 7, 2007. Upon closing the Purchase Agreement, Hannover Re assumed the business related to the ING Financings as part of the Acquired Business, as well as the obligation to pay the existing and any future increases in the related LOC fees.

In connection with the Purchase Agreement, the ING Companies and certain of the Sellers entered into recapture agreements (and, in specific instances, novations to Hannover Re of certain existing reinsurance agreements) with respect to the Acquired Business, and the ING Companies and Hannover Re subsequently entered into new reinsurance agreements with respect to the Acquired Business immediately thereafter. These recapture and reinsurance transactions and the novations had an effective date of January 1, 2009. SRUS and SRLB remain responsible for liabilities and obligations to SLD and SLDI under their reinsurance agreements with these parties to the extent attributable to periods prior to January 1, 2009 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 Hannover Re 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) Hannover Re made a payment to the Sellers in respect of the Transferred Assets in an amount equal to $18 million.

Following the transfer of assets with respect to the recapture payments noted above, we have been released of associated policyholder liabilities on the sale of the Acquired Business. The release of such liabilities resulted in a pre-tax gain of $703.6 million, after transaction expenses and related costs. The gain was also subject to certain contingencies with escrow funding considerations as described below, thereby reducing the pre-tax gain recognized in the first quarter to $642.4 million. Subsequent to the sale of the Acquired Business, we still retain a substantial shareholders' deficit. This total gain is summarized as follows:

(U.S. dollars in millions)	**Balance Sheet**	**Statement of Operations**
Transfer of investments	$ (1,468.7)	
Release of reserve for future policy benefits	1,902.9	
Decrease in accounts payable and other liabilities	1.7	
Decrease in reinsurance balances and risk fees receivable	(6.3)	
Decrease in reinsurance balances payable	4.7	
Increase in other assets	18.7	
Escrow funding	(61.2)	
Decrease in claims and other policy benefits	$ 391.8	$ 391.8
Decrease in accounts payable and other liabilities	275.5	
Change in value of embedded adjustment	$ 275.5	275.5
Release in deferred acquisition costs	(24.9)	
Acquisition costs and other insurance expenses, net	$ (24.9)	(24.9)
Total pre-tax gain for first quarter 2009		$ 642.4

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 did not consent to such transfers prior to April 30, 2009, we were required under the Purchase Agreement to deposit into escrow with Hannover Re by May 14, 2009 a pro-rata amount related to such retrocession agreements for which such consent had 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. As of March 31, 2009, the maximum potential escrow funding amount was reduced to $61.2 million. As of the escrow funding requirement date of May 14, 2009, the balance was $1.9 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.

12. De-consolidation of Ballantyne Re

Ballantyne Re is a special purpose reinsurance vehicle incorporated under the laws of Ireland. In May 2006, Ballantyne Re issued in a private offering $1.74 billion of debt to third-party investors, and an additional$178 million of Class C Notes and $181.2 million in preferred shares to SALIC and $500,000 in Class D Notes to SRGL.

The securities we own and the rights we held under the reinsurance agreement with Ballantyne Re were considered variable interests. At inception, we evaluated the rights and obligations allocable to the variable interest holders and determined that we would absorb a majority of the expected losses. As a result, Ballantyne Re since inception was consolidated in our financial statements. The assets of Ballantyne Re were recorded as fixed maturity investments and cash and cash equivalents. Our Consolidated Statement of Operations included the investment return of Ballantyne Re as investment income, realized and unrealized gains and losses and the cost of the securitization structure were reflected in collateral finance facilities expense. Funds in the securitizations were fully used for the sole purpose of the securitizations and hence not available for general corporate purposes.

Ballantyne Re is consolidated in our December 31, 2008 consolidated financial statements and statement of operations for the three months ended March 31, 2008. Effective January 1, 2009, Ballantyne Re no longer is consolidated within the financial statements of SRGL. Pursuant to the Purchase Agreement, Hannover Re explicitly agreed to assume the mortality risk for all recaptures of business from Ballantyne Re. Our disposal of the variable interest to absorb mortality risk recaptured from Ballantyne Re under the reinsurance agreement constituted a reconsideration event related to the consolidation of Ballantyne Re under FIN 46(R). We subsequently have completed a primary beneficiary analysis and have concluded that we no longer are the primary beneficiary of Ballantyne Re as defined within FIN 46(R) and, as a result, are no longer consolidating Ballantyne Re into the financial statements of SRGL. The de-consolidation of Ballantyne Re has reduced our consolidated total assets and liabilities by approximately $885 million and $2,035 million, respectively, resulting in a one-time non-cash de-consolidation gain of $1,150 million. This one-time non-cash de-consolidation gain was increased from our previous estimate of $750 million in the December 31, 2008 consolidated financial statements primarily for consideration of elimination entries related to our original investment in Ballantyne Re. This gain has no impact on our current or future liquidity position. The following table reflects the significant balances attributable to Ballantyne Re as at the dates indicated below:

(U.S. dollars in millions)	March 31, 2009*	December 31, 2008**
Assets		
Investments	$ 669.2	$ 641.8
Cash and cash equivalents	108.0	235.9
All other assets	20.9	7.3
Total assets	$ 798.1	$ 885.0
Liabilities		
Reserves for future policy benefits	$ 220.1	$ 241.9
Collateral finance facilities	1,700.5	1,700.0
All other liabilities	68.2	93.2
Total liabilities	$ 1,988.8	$ 2,035.1

(U.S. dollars in millions)	March 31, 2009	March 31, 2008
Revenues		
Premiums earned, net	$ 20.9	$ 56.3
Investment income, net	9.2	28.5
Net realized losses	(33.4)	(426.9)
Total revenues	$ (3.3)	$ (342.1)
Expenses		
Claims and other policy benefits	$ 18.5	$ (41.3)
Acquisition costs and other insurance expenses, net	5.2	13.9
Operating expenses	-	(0.3)
Collateral finance facilities expense	13.1	23.8
Total benefits and expenses	$ 36.8	$ (3.9)

*Balances are not consolidated in the unaudited consolidated interim financial statements as of March 31, 2009.

**Balances are consolidated in the audited December 31, 2008 consolidated financial statements and three month period ended interim consolidated financial statements as of March 31, 2008.

At March 31, 2009, our remaining direct exposure to loss related to Ballantyne Re is zero because all remaining interests in Ballantyne Re Class D Notes and Preferred Shares are valued at zero. The Class C Notes were contractually written-off during the fourth quarter of 2008. All remaining interests are classified as trading securities in the Consolidated Balance Sheet as of March 31, 2009.

Following the presentation of the de-consolidation of Ballantyne Re discussed herein, certain first quarter 2009 events relative to Ballantyne Re as discussed in Note 13, “Ballantyne Re”, below, and certain subsequent events in Note 15, “Subsequent Events, Ballantyne Re Event of Default”, below, the Company does not anticipate and the reader should not expect continued disclosure in subsequent periods of events or matters related to Ballantyne Re. Notwithstanding the foregoing, the Company will disclose events or matters related to Ballantyne Re in its subsequent financial statements if and to the extent the Company determines such events or matters are relevant to the reported numbers or otherwise are required to be included.

13. Ballantyne Re

Event of Default

Beginning with the scheduled interest payment date on January 2, 2009, and continuing until February 3, 2009, Ballantyne Re was unable to make scheduled interest payments on the Class A Notes. Failure to make such payments in full when due constitutes an event of default under the Ballantyne Re indenture ("Ballantyne 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 Ballantyne EOD, Ambac and Assured obtained, and will continue to have, certain enhanced contractual rights under the transaction documents and additional fees will be accrued for the guarantee coverage.

Ballantyne Re Recaptures

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. The market value of the assets transferred to the ING Companies in connection with the Fourth Quarter Recapture was $74.4 million and consisted of assets retained within the economic account of the Ballantyne Re trust. There was no net income impact related to this transaction. The business ceded to SALIC in connection with the Fourth Quarter Recapture subsequently was sold to Hannover Re as part of the Acquired Business.

Effective March 31, 2009, the ING Companies recaptured, on a pro-rata basis, 3.6% of the original Ballantyne Business (the "Fifth Recapture"). 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 to the ING Companies in connection with the Fifth Recapture was $23.6 million and consisted of assets retained within the economic account of the Ballantyne Re trust. Neither the Company nor any of its affiliates has any obligation in respect of the Fifth Recapture, whether with respect to the reinsurance of such business, the provision or payment for the provision of any letters of credit, or otherwise. Effective January 1, 2009, Ballantyne Re no longer is consolidated in our financial statements and, as a result, the Fifth Recapture had no effect on our net income.

14. 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 $5.8 million was paid by SRGL on October 7, 2008, and the additional $25.3 million was paid by SRGL's insurance carriers.

Indemnification

In connection with an examination of the statutory accounting books of certain of our operating insurance subsidiaries, and specifically, the purchase accounting entries made in connection with the 2004 acquisition of the ING business, we determined that certain intercompany receivables and intercompany claims were not reflected in the statutory financial statements of SRUS and SRD in accordance with applicable statutory accounting practices. Management determined that as a result of these errors the statutory surplus for SRD was overstated on a cumulative basis at year end 2004, 2005 and 2006, resulting in a restated statutory surplus at year end 2006 of approximately $285 million after giving effect to these corrections.

In addition, management determined that the statutory surplus for SRUS was understated on a cumulative basis at year end 2005 and 2006, resulting in a restated statutory surplus at year end 2006 of approximately $344 million after giving effect to these corrections.

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

Pursuant to the Agreement with MassMutual Capital and Cerberus, we made certain representations and warranties regarding the statutory financial statements of each of our insurance subsidiaries, including SRD and SRUS, for the years ended 2003, 2004 and 2005 and, with respect to SRUS but not SRD, the first three quarters of 2006, including that these statements were prepared in conformity with applicable statutory accounting practices and fairly present in accordance with such practices, in all material respects, the statutory financial condition of the 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.

15. Subsequent Events

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 April 15, 2009 dividend payment date.

Ballantyne Re Event of Default

On June 3, 2009, The Bank of New York Mellon, in its capacity as trustee pursuant to the Ballantyne Re indenture, notified Ballantyne Re of an additional Ballantyne EOD relating to Ballantyne Re's failure to deliver its annual consolidated IFRS financial statements in accordance with the provisions of the indenture. Due to the existing Ballantyne EOD relating to scheduled interest payments, the Ballantyne EOD relating to financial statement delivery does not confer any additional contractual rights, or result in additional fees being paid, to Ambac or Assured.

Orkney Re II Event of Default, Acceleration and Foreclosure

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

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

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

Ratings

As discussed elsewhere herein, the financial strength ratings on the Company and its subsidiaries were lowered on several occasions since 2007, with a resulting material negative impact on our ability to achieve our previous goal of attaining an "A-" or better rating by the middle of 2009. Ratings at such levels also previously triggered the vesting of contractual recapture rights in respect of certain of our reinsurance business and resulted in the increase to a maximum "stepped up" rate of certain guarantor fees in respect of the securitization structures used to finance the Regulation XXX statutory reserve requirements associated with business ceded by SRUS to each of Orkney Re and Orkney Re II. In light of the foregoing and our pursuit of a run-off strategy for our remaining business, among other factors, the Company has determined it no longer intends to utilize capital for the payment of ratings fees to maintain the financial strength and other ratings on the Company and its operating subsidiaries at such levels. Accordingly, we notified each of the rating agencies in early June 2009 that the Company no longer will be compensating the agencies for their maintenance of such ratings.

Following this communication, on June 12, 2009, A.M. Best affirmed and then withdrew the financial strength ratings and issuer credit ratings of SALIC, Scottish Re Life Corporation and Orkney Re. At the same time, A.M. Best affirmed and then withdrew our issuer credit rating and the rating of our Perpetual Preferred Shares, as well as our indicative ratings of senior unsecured debt, subordinated debt and preferred stock. SRUS' financial strength rating of E (Under Regulatory Supervision) and issuer credit rating of "rs" was unchanged.

On, June 22, 2009, Fitch Ratings ("Fitch") downgraded the issuer default rating of SRGL to "CC" from "CCC" and then withdrew its rating of SRGL. At the same time, Fitch affirmed and then withdrew the insurer financial strength rating of SRUS. Fitch also has withdrawn the insurer financial strength rating of SALIC and the rating of the Stingray Pass Through Trust and the rating of our Perpetual Preferred Shares. As such, Fitch has withdrawn all ratings of the Company and no longer will provide analytical coverage in respect of the Company and its affiliates.

We expect similar actions in respect of our ratings to be taken in the near term by each of Standard & Poor's and Moody's Investors Service.