SCOTTISH RE GROUP LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015

(These consolidated financial statements are unaudited.)

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

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Assets		
Fixed-maturity investments held as trading securities, at fair value	$ 1,585,557	$ 1,699,960
Fixed-maturity investments held as available-for-sale securities, at fair value (amortized cost: 2015 – $58,661; 2014 – $7,714)	58,994	7,690
Preferred stock held as trading securities, at fair value	-	1,267
Cash and cash equivalents	254,582	227,871
Affiliated investments	34,527	40,176
Other investments	2,890	2,957
Funds withheld at interest	419,387	425,575
Total investments[1]	2,355,937	2,405,496
Accrued interest receivable[2]	10,312	10,878
Amounts recoverable from reinsurers	667,648	704,400
Reinsurance balances receivable	96,358	127,621
Deferred acquisition costs	125,743	132,717
Present value of in-force business	20,439	21,048
Other assets	4,881	5,302
Total assets	$ 3,281,318	$ 3,407,462
Liabilities		
Reserves for future policy benefits	$ 1,282,612	$ 1,316,256
Interest-sensitive contract liabilities	886,640	942,990
Collateral finance facility[3]	450,000	450,000
Reinsurance balances payable	43,918	60,426
Accounts payable and other liabilities[4]	76,115	75,804
Deferred tax liabilities	29,008	31,542
Embedded derivative liabilities, at fair value	14,254	13,407
Long-term debt, at par value	86,500	86,500
Total liabilities	2,869,047	$ 2,976,925
Mezzanine Equity		
Convertible cumulative participating preferred shares, par value $0.01: 1,000,000 shares issued and outstanding with $600.0 million initial stated value (liquidation preference: 2015 – $868.6 million; 2014 – $857.7 million)	555,857	555,857
Shareholders' Deficit		
Ordinary shares, par value $0.01: 68,383,370 shares issued and outstanding	684	684
Non-cumulative perpetual preferred shares, par value $0.01: 3,246,776 shares issued and outstanding	81,169	81,169
Additional paid-in capital	1,218,190	1,218,190
Accumulated other comprehensive income (loss), net of tax	333	(24)
Retained deficit	(1,443,962)	(1,425,339)
Total shareholders' deficit	(143,586)	(125,320)
Total liabilities, mezzanine equity, and total shareholders' deficit	$ 3,281,318	$ 3,407,462

[1] Includes total investments of consolidated variable interest entity ("VIE")	$ 278,912	$ 287,070
[2] Includes accrued interest receivable of consolidated VIE	1,425	1,274
[3] Reflects collateral finance facility of consolidated VIE	450,000	450,000
[4] Reflects accounts payable and other liabilities of consolidated VIE	57,194	54,883

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

(Expressed in Thousands of United States Dollars)

	Three month period ended	
	March 31, 2015	March 31, 2014
Revenues		
Premiums earned, net	$ 83,333	$ 88,598
Investment income, net	20,230	20,755
Net realized and unrealized gains	7,200	26,570
Change in fair value of embedded derivative assets and liabilities	(847)	2,385
Fees and other income	557	582
Total revenues	110,473	138,890
Benefits and expenses		
Claims, policy benefits, and changes in policyholder reserves, net	101,190	90,735
Interest credited to interest-sensitive contract liabilities	5,802	6,805
Other insurance expenses including amortization of deferred acquisition costs, net	15,467	13,674
Operating expenses	5,659	5,659
Collateral finance facilities expense	2,527	2,448
Interest expense	906	1,225
Total benefits and expenses	131,551	120,546
Income (loss) before income taxes	(21,078)	18,344
Income tax benefit	2,455	9,641
Net income (loss)	(18,623)	27,985
Other comprehensive income, net of tax:		
Unrealized gains on available-for-sale investments, net of tax	357	-
Total other comprehensive income, net of tax	357	-
Total comprehensive income (loss)	$ (18,266)	$ 27,985

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

(Expressed in Thousands of United States Dollars)

	Three month period ended March 31, 2015	Three month period ended March 31, 2014
Share capital:		
Ordinary shares:		
Beginning and end of period	$ 684	$ 684
Non-cumulative perpetual preferred shares:		
Beginning and end of period	81,169	81,169
Additional paid-in capital:		
Beginning and end of period	1,218,190	1,218,190
Accumulated other comprehensive income (loss):		
Beginning of period	(24)	-
Other comprehensive income, net of taxes	357	-
End of period	333	-
Retained deficit:		
Beginning of period	(1,425,339)	(1,431,697)
Net income (loss)	(18,623)	27,985
End of period	(1,443,962)	(1,403,712)
Total shareholders' deficit	$ (143,586)	$ (103,669)

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

(Expressed in Thousands of United States Dollars)

	Three month period ended	
	March 31, 2015	**March 31, 2014**
Operating activities		
Net income (loss)	$ (18,623)	$ 27,985
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Net realized and unrealized gains	(7,200)	(26,570)
Changes in value of embedded derivative assets and liabilities	847	(2,385)
Amortization of discount on fixed-maturity investments – available-for-sale	16	-
Amortization of deferred acquisition costs	6,974	2,856
Amortization of present value of in-force business	609	205
Amortization of deferred finance facility costs	217	217
Depreciation of fixed assets	18	35
Changes in assets and liabilities:		
Funds withheld at interest	6,188	6,028
Accrued interest receivable	566	48
Reinsurance balances receivable	31,263	21,013
Other assets	190	102
Reserves for future policy benefits, net of amounts recoverable from reinsurers	3,108	(10,908)
Interest-sensitive contract liabilities	(5,669)	(4,884)
Accounts payable and other liabilities, including deferred tax liabilities	(2,223)	(4,753)
Reinsurance balances payable	(16,508)	(8,571)
Net cash provided by (used in) operating activities	(227)	418
Investing activities		
Purchase of fixed-maturity investments – trading	-	(53,887)
Purchase of fixed-maturity investments – available-for-sale	(51,009)	-
Proceeds from sales and maturities of fixed-maturity investments – trading	126,372	85,683
Proceeds from sales and maturities of fixed-maturity investments – available-for-sale	46	-
Proceeds from sales of preferred stock	1,280	-
Purchases of and proceeds from affiliated investments, net	862	-
Purchase of and proceeds from other investments, net	67	39
Net cash provided by investing activities	77,618	31,835
Financing activities		
Withdrawals from interest-sensitive contract liabilities	(50,680)	(12,765)
Net cash used in financing activities	(50,680)	(12,765)
Net change in cash and cash equivalents	26,711	19,488
Cash and cash equivalents, beginning of period	227,871	247,409
Cash and cash equivalents, end of period	$ 254,582	$ 266,897

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

1. Organization, Business Strategy, and Lines of Business

Organization

Scottish Re Group Limited ("SRGL" and, together with SRGL's consolidated subsidiaries and, as a result of the application of FASB ASC 810-10 (as defined in Note 2, "Basis of Presentation" herein), its consolidated VIE*, as applicable, the "Company", "we", "our", and "us") is a holding company incorporated under the laws of the Cayman Islands, and with its principal executive office located in Bermuda. Through its operating subsidiaries, the Company is principally engaged in the reinsurance of life insurance, annuities, and annuity-type products. All of the equity voting power of SRGL, along with the right to designate a controlling number of members of SRGL's Board of Directors (the "Board"), is controlled directly or indirectly by MassMutual Capital Partners LLC, a member of the MassMutual Financial Group ("MassMutual Capital") and SRGL Acquisition, LDC, an affiliate of Cerberus Capital Management L.P. ("Cerberus" and, together with MassMutual Capital, the "Investors"). As of March 31, 2015, SRGL's consolidated subsidiaries (consisting of operating companies, holding companies and financing companies) and its consolidated VIE (a collateral finance facility), by jurisdiction, were as follows:

<u>Bermuda</u>
Scottish Re Life (Bermuda) Limited ("SRLB")

<u>Cayman Islands</u>
Scottish Annuity & Life Insurance Company (Cayman) Ltd. ("SALIC")

<u>Ireland</u>
Scottish Re (Dublin) Limited ("SRD")
Orkney Re II plc ("Orkney Re II")*

<u>Luxembourg</u>
Scottish Financial (Luxembourg) S.á r.l. ("SFL")
Scottish Holdings (Luxembourg) ("SHL") **

<u>United States of America ("U.S." or "United States")</u>
Scottish Holdings, Inc. ("SHI")
Scottish Re (U.S.), Inc. ("SRUS")

* *Orkney Re II is the consolidated VIE. References in the consolidated financial statements and accompanying notes to any discretionary acts of management or of any of the consolidated entities do not, unless explicitly stated otherwise, refer to any such acts by Orkney Re II.*

** *SHL deregistered with the Luxembourg Trade Registrar as of December 18, 2014, and its liquidation was completed April 1, 2015.*

Business Strategy

In 2008, our insurance operating companies ceased writing new business and notified existing clients that new reinsurance risks no longer would be accepted under existing reinsurance treaties, thereby placing the reinsurance business into run-off (the "Closed Block"). We continue to manage the Closed Block, whereby we perform key activities under the related reinsurance treaties, including the receipt of premiums and the payment of claims.

The Company has purchased from time-to-time and, if opportunities arise, may in the future continue to purchase, in privately-negotiated transactions, open market purchases, or by means of general solicitations, tender offers, or otherwise, our outstanding securities and other liabilities. Any such purchases will depend on a variety of factors including, but not limited to, available corporate liquidity, capital requirements, and indicative pricing levels. The amounts involved in any such transactions, individually or in the aggregate, may be material. For further

1. Organization, Business Strategy, and Lines of Business (continued)

discussion on our outstanding securities and any recent transactions, please refer to Note 6, "Debt Obligations and Other Funding Arrangements", and Note 8, "Shareholders' Deficit".

Lines of Business

As defined and described in our audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2014, we have written reinsurance business that is wholly or partially retained in one or more of our reinsurance subsidiaries and have classified the reinsurance as Traditional Solutions or as Financial Solutions.

2. Basis of Presentation

Accounting Principles – Our consolidated interim financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). Accordingly, these consolidated interim financial statements do not include all of the information and notes required by U.S. GAAP for annual financial statements. These unaudited consolidated interim financial statements should be read in conjunction with SRGL's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2014.

Consolidation – The consolidated interim financial statements include the assets, liabilities, and results of operations of SRGL, its subsidiaries, and the VIE for which we are the primary beneficiary, as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810-10, Consolidation – Overall ("FASB ASC 810-10"). All significant intercompany transactions and balances have been eliminated in consolidation. We currently consolidate one non-recourse securitization, Orkney Re II, a special purpose VIE incorporated under the laws of Ireland. For further discussion on Orkney Re II, please refer to Note 5, "Collateral Finance Facility and Securitization Structure".

Estimates and Assumptions – The preparation of consolidated interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated interim financial statements and accompanying notes. Actual results could differ materially from those estimates and assumptions used by management, and such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Our most significant assumptions are for:

- investment valuations;
- accounting for embedded derivative instruments;
- assessment of risk transfer for structured insurance and reinsurance contracts;
- estimates of premiums;
- valuation of the 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
- current taxes, deferred taxes, and the determination of associated valuation allowances.

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

2. Basis of Presentation (continued)

Reclassifications – Certain prior period amounts in our consolidated interim financial statements and accompanying notes have been reclassified to conform to the current presentation.

Investments – In accordance with FASB ASC 320 Investments – Debt and Equity Securities, we are required to review the appropriateness of our investment classification at least annually. During 2014, we reevaluated the appropriateness of the accounting classification of our fixed-maturity investments and preferred stocks, which have been classified as trading since January 1, 2008. As a result of this evaluation, the Company has determined that as new fixed-maturity investments and preferred stocks are acquired, they will be classified as available-for-sale, such that over time the entire investment portfolio will be classified as available-for-sale. This process of migrating to available-for-sale as fixed-maturity investments and preferred stocks are acquired or replaced could take several years given the duration of some of our existing investments. Effective August 2014, the Company classified securities in defined portfolios as available-for-sale. Effective January 1, 2015, the Company began classifying all newly-purchased securities as available-for-sale. The unrealized appreciation (depreciation) on our investments classified as available-for-sale represents the difference between fair value and amortized cost and is recorded directly to equity with no impact to earnings. The change in unrealized appreciation (depreciation) is included in accumulated other comprehensive income (loss) in shareholders' deficit after deductions for adjustments for any associated deferred acquisition costs and deferred income taxes, where applicable. For further discussion on our available-for-sale investments, please refer to Note 3, "Investments – *Available-for-Sale*".

3. Investments

Trading Investments

The estimated fair values of our fixed-maturity investments and preferred stock held as trading securities as of March 31, 2015 and December 31, 2014, were as follows:

(U.S. dollars in thousands)	**March 31, 2015**	**December 31, 2014**
U.S. Treasury securities and U.S. government agency obligations	$ 29,001	$ 28,934
Corporate securities	559,571	620,292
Municipal bonds	32,519	32,513
Residential mortgage-backed securities	456,040	487,118
Commercial mortgage-backed securities	189,255	196,299
Asset-backed securities	319,171	334,804
Total fixed-maturity investments held as trading securities	1,585,557	1,699,960
Preferred stock	-	1,267
Total	$ 1,585,557	$ 1,701,227

3. Investments (continued)

The contractual maturities of the fixed-maturity investments held as trading securities as of March 31, 2015 and December 31, 2014, were as follows (actual maturities may differ as a result of calls and prepayments):

(U.S. dollars in thousands)	Estimated Fair Value March 31, 2015	Estimated Fair Value December 31, 2014
Due in one year or less	$ 102,637	$ 108,402
Due after one year through five years	322,089	351,040
Due after five years through ten years	145,195	168,508
Due after ten years	51,170	53,789
	621,091	681,739
Residential mortgage-backed securities	456,040	487,118
Commercial mortgage-backed securities	189,255	196,299
Asset-backed securities	319,171	334,804
Total	$ 1,585,557	$ 1,699,960

Available-for-Sale Investments

The following table presents the amortized cost and estimated fair value of fixed maturity securities classified as available-for-sale as of March 31, 2015.

(U.S. dollars in thousands)	March 31, 2015				
		Gross Unrealized			
	Cost or Amortized Cost	Gains	Temporary Losses	Other Than Temporary Losses	Estimated Fair Value
U.S. Treasury securities and U.S. government agency obligations	$ -	$ -	$ -	$ -	$ -
Corporate securities	21,120	219	(1)	-	21,338
Municipal bonds	-	-	-	-	-
Residential mortgage-backed securities	-	-	-	-	-
Commercial mortgage-backed securities	3,918	91	-	-	4,009
Asset-backed securities	33,623	61	(37)	-	33,647
Total securities	$ 58,661	$ 371	$ (38)	$ -	$ 58,994

3. Investments (continued)

The following table presents the amortized cost and estimated fair value of fixed maturity securities classified as available-for-sale as of December 31, 2014.

(U.S. dollars in thousands)	December 31, 2014				
		Gross Unrealized			
	Cost or Amortized Cost	Gains	Temporary Losses	Other Than Temporary Losses	Estimated Fair Value
U.S. Treasury securities and U.S. government agency obligations......	$ -	$ -	$ -	$ -	$ -
Corporate securities	1,055	1	(11)	-	1,045
Municipal bonds	-	-	-	-	-
Residential mortgage-backed securities	-	-	-	-	-
Commercial mortgage-backed securities	2,952	11	(11)	-	2,952
Asset-backed securities.....................	3,707	-	(14)	-	3,693
Total securities	$ 7,714	$ 12	$ (36)	$ -	$ 7,690

The following table presents the estimated fair value and gross unrealized losses of all investments classified as available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2015.

(U.S. dollars in thousands)	March 31, 2015					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities and U.S. government agency obligations...	$ -	$ -	$ -	$ -	$ -	$ -
Corporate securities........................	107	(1)	-	-	107	(1)
Municipal bonds.............................	-	-	-	-	-	-
Residential mortgage-backed securities......................................	-	-	-	-	-	-
Commercial mortgage-backed securities......................................	-	-	-	-	-	-
Asset-backed securities	19,527	(37)	-	-	19,527	(37)
Total available-for-sale fixed maturities.......................................	$ 19,634	$ (38)	$ -	$ -	$ 19,634	$ (38)
Equity securities						
Preferred stock	$ -	$ -	$ -	$ -	$ -	$ -
Total equity securities	$ -	$ -	$ -	$ -	$ -	$ -

3. Investments (continued)

The following table presents the estimated fair value and gross unrealized losses of all investments classified as available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2014.

(U.S. dollars in thousands)	December 31, 2014					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Treasury securities and U.S. government agency obligations	$ -	$ -	$ -	$ -	$ -	$ -
Corporate securities	835	(11)	-	-	835	(11)
Municipal bonds	-	-	-	-	-	-
Residential mortgage-backed securities	-	-	-	-	-	-
Commercial mortgage-backed securities	2,380	(11)	-	-	2,380	(11)
Asset-backed securities	3,693	(14)	-	-	3,693	(14)
Total available-for-sale fixed maturities	$ 6,908	$ (36)	$ -	$ -	$ 6,908	$ (36)
Equity securities						
Preferred stock	$ -	$ -	$ -	$ -	$ -	$ -
Total equity securities	$ -	$ -	$ -	$ -	$ -	$ -

Total securities classified as available-for-sale that had unrealized losses as of March 31, 2015 and December 31, 2014, were 14 and 20, respectively. The Company's unrealized losses on its fixed maturity investments were the result of interest rate increases. Since the decline in estimated fair value is attributable to changes in interest rates and not credit quality, and the Company has the intent and ability to hold these maturities through a recovery of unrealized losses, even if until maturity of the individual securities, the Company does not consider these investments other than temporarily impaired.

The contractual maturities of the fixed-maturity investments classified as available-for-sale securities as of March 31, 2015, were as follows (actual maturities may differ as a result of calls and prepayments):

(U.S. dollars in thousands)	Cost or Amortized Cost March 31, 2015	Estimated Fair Value March 31, 2015
Due in one year or less	$ -	$ -
Due after one year through five years	7,939	7,989
Due after five years through ten years	13,181	13,349
Due after ten years	-	-
	21,120	21,338
Residential mortgage-backed securities	-	-
Commercial mortgage-backed securities	3,918	4,009
Asset-backed securities	33,623	33,647
Total	$ 58,661	$ 58,994

3. Investments (continued)

The contractual maturities of the fixed-maturity investments classified as available-for-sale securities as of December 31, 2014, were as follows (actual maturities may differ as a result of calls and prepayments):

	Cost or Amortized Cost	Estimated Fair Value
(U.S. dollars in thousands)	**December 31, 2014**	**December 31, 2014**
Due in one year or less	$ -	$ -
Due after one year through five years	115	115
Due after five years through ten years	940	930
Due after ten years	-	-
	1,055	1,045
Residential mortgage-backed securities	-	-
Commercial mortgage-backed securities	2,952	2,952
Asset-backed securities	3,707	3,693
Total	$ 7,714	$ 7,690

Assets on Deposit

We are required to maintain assets on deposit with various U.S. regulatory authorities, in accordance with the statutory regulations of the individual jurisdictions, to support our insurance and reinsurance operations. As a result of the various regulatory limitations on how these assets may be invested and their unavailability for general corporate purposes, these assets are considered “restricted”. We also have established trust funds* in connection with certain transactions for the benefit of the transaction counterparties, which amounts also include assets attributable to the VIE that we consolidate, Orkney Re II. As a result of the restrictions imposed on the foregoing assets in accordance with the respective reinsurance treaties and other agreements to which they relate, these assets (including the assets within the collateral finance facility that are held for the contractual obligations of that structure) are not available for general corporate purposes and also are considered “restricted”. (Please also refer to Note 5, “Collateral Finance Facility and Securitization Structure” for additional information.)

The estimated fair value of the components of the restricted assets* as of March 31, 2015 and December 31, 2014, were as follows:

(U.S. dollars in thousands)	**March 31, 2015**	**December 31, 2014**
Deposits with U.S. regulatory authorities	$ 4,569	$ 4,545
Trust funds	1,186,425	1,220,840
Total	$ 1,190,994	$ 1,225,385

**“Trust funds” in the above table reflects the fair value of assets held by ceding companies under modified coinsurance arrangements and the fair value of assets we hold in segregated portfolios under coinsurance arrangements. The assets that comprise the “Trust funds” are included in fixed-maturity investments, preferred stock, cash and cash equivalents, and funds withheld at interest in the Consolidated Balance Sheets.*

3. Investments (continued)

Net Investment Income

Net investment income for the trading securities and the available-for-sale securities for the three month periods ended March 31, 2015 and 2014, was derived from the following sources:

(U.S. dollars in thousands)	Three Month Period Ended March 31, 2015	Three Month Period Ended March 31, 2014
Fixed-maturity investments, held as trading	$ 17,538	$ 17,953
Fixed-maturity investments, held as available-for sale	151	-
Preferred stock	14	14
Funds withheld at interest	3,421	3,924
Other investments	48	55
Investment expenses	(942)	(1,191)
Net investment income	$ 20,230	$ 20,755

Realized and Unrealized Gains

The components of realized and unrealized gains (losses) and of the change in net unrealized appreciation (depreciation) on investments and other balances for the three month periods ended March 31, 2015 and 2014, were as follows:

(U.S. dollars in thousands)	Three Month Period Ended March 31, 2015	Three Month Period Ended March 31, 2014
Realized and unrealized gains (losses)		
Fixed-maturity investments		
Gross realized gains	$ 2,218	$ 1,014
Gross realized losses	(63)	(781)
Net unrealized gains	9,813	24,942
	11,968	25,175
Preferred stock		
Gross realized gains	13	-
Net unrealized gains	-	117
	13	117
Other		
Cerberus Affiliated Fund* - unrealized gains (losses)	(4,787)	1,287
Realized losses on modified coinsurance treaties	(1)	(8)
Other	7	(1)
	(4,781)	1,278
Net realized and unrealized gains	$ 7,200	$ 26,570

* *Defined in the Affiliated Investments Note below.*

3. Investments (continued)

Affiliated Investments

Affiliated investments represent investments accounted for under the equity method, in accordance with FASB 323 Investments – Equity Method and Joint Ventures, for which the resulting equity method carrying value is deemed to approximate fair value. The investments accounted for under the equity method represent executed subscription documents, signed by SALIC on March 26, 2012, pursuant to which SALIC committed to make an investment of up to an aggregate $30.0 million in an investment fund affiliated with and controlled, directly or indirectly, by Cerberus (the “Cerberus Affiliated Fund”). The Cerberus Affiliated Fund, which is included in Affiliated Investments on the accompanying Consolidated Balance Sheets, had costs and carrying values as of March 31, 2015 and December 31, 2014, were as follows:

(U.S. dollars in thousands)	Cost (Total Commitment)	Carrying Value
March 31, 2015	$ 25,566	$ 34,527
December 31, 2014	$ 26,428	$ 40,176

4. Fair Value Measurements

FASB ASC 820 defines fair value, establishes a framework for measuring fair value based on an exit price definition, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and provides 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), as described in Note 5, “Fair Value Measurements” in our audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2014, which, along with Note 3, “Investments” above, also includes additional disclosures regarding our fair value measurements.

4. Fair Value Measurements (continued)

Fair Value Measurements on a Recurring Basis

The following tables set forth our assets and liabilities that were measured at fair value on a recurring basis, as of the March 31, 2015 and December 31, 2014:

	March 31, 2015			
(U.S. dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments – trading				
U.S. Treasury securities and U.S. government agency obligations	$ -	$ 29,001	$ -	$ 29,001
Corporate securities	-	541,054	18,517	559,571
Municipal bonds	-	32,519	-	32,519
Residential mortgage-backed securities	-	182,527	273,513	456,040
Commercial mortgage-backed securities	-	189,023	232	189,255
Asset-backed securities	-	292,805	26,366	319,171
Fixed-maturity investments, held as trading	-	1,266,929	318,628	1,585,557
Investments – available-for-sale				
U.S. Treasury securities and U.S. government agency obligations	$ -	$ -	$ -	$ -
Corporate securities	-	21,338	-	21,338
Municipal bonds	-	-	-	-
Residential mortgage-backed securities	-	-	-	-
Commercial mortgage-backed securities	-	4,009	-	4,009
Asset-backed securities	-	31,631	2,016	33,647
Fixed-maturity investments, held as available-for-sale	-	56,978	2,016	58,994
Preferred stock	-	-	-	-
Total assets at fair value	$ -	$ 1,323,907	$ 320,644	$ 1,644,551
Embedded derivative liabilities	-	-	(14,254)	(14,254)
Total liabilities at fair value	$ -	$ -	$ (14,254)	$ (14,254)

4. Fair Value Measurements (continued)

(U.S. dollars in thousands)	December 31, 2014 Level 1	Level 2	Level 3	Total
Investments – trading				
U.S. Treasury securities and U.S. government agency obligations	$ -	$ 28,934	$ -	$ 28,934
Corporate securities	-	595,638	24,654	620,292
Municipal bonds	-	26,675	5,838	32,513
Residential mortgage-backed securities	-	217,543	269,575	487,118
Commercial mortgage-backed securities	-	196,025	274	196,299
Asset-backed securities	-	295,953	38,851	334,804
Fixed-maturity investments, held as trading	-	1,360,768	339,192	1,699,960
Investments – available-for-sale				
U.S. Treasury securities and U.S. government agency obligations	$ -	$ -	$ -	$ -
Corporate securities	-	1,045	-	1,045
Municipal bonds	-	-	-	-
Residential mortgage-backed securities	-	-	-	-
Commercial mortgage-backed securities	-	2,952	-	2,952
Asset-backed securities	-	3,693	-	3,693
Fixed-maturity investments, held as available-for-sale	-	7,690	-	7,690
Preferred stock	-	1,267	-	1,267
Total assets at fair value	$ -	$ 1,369,725	$ 339,192	$ 1,708,917
Embedded derivative liabilities	-	-	(13,407)	(13,407)
Total liabilities at fair value	$ -	$ -	$ (13,407)	$ (13,407)

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2015

4. Fair Value Measurements (continued)

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the three month period ended March 31, 2015						
(U.S. dollars in thousands)	**Corporate securities**	**Municipal bonds**	**Residential mortgage-backed securities**	**Commercial mortgage-backed securities**	**Asset-backed securities**	**Total assets at fair value**	**Total liabilities at fair value**
Beginning balance as of January 1, 2015	$ 24,654	$ 5,838	$ 269,575	$ 274	$ 38,851	$ 339,192	$ (13,407)
Total realized and unrealized gains (losses) included on trading securities in net income	(138)	-	5,466	-	(1,038)	4,290	(847)
Total unrealized gains (losses) included on available-for-sale securities in comprehensive net income (loss)	-	-	-	-	-	-	-
Purchases	588	-	-	-	2,000	2,588	-
Settlements	(6,650)	-	(3,534)	(42)	(9,178)	(19,404)	-
Amortization	63	-	2,006	-	38	2,107	-
Transfers into and/or (out of) Level 3, net	-	(5,838)	-	-	(2,291)	(8,129)	-
Ending balance as of March 31, 2015	$ 18,517	$ -	$ 273,513	$ 232	$ 28,382	$ 320,644	$ (14,254)

4. Fair Value Measurements (continued)

(U.S. dollars in thousands)	Corporate securities	Municipal bonds	Residential mortgage-backed securities	Commercial mortgage-backed securities	Asset-backed securities	Total assets at fair value	Total liabilities at fair value
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the year ended December 31, 2014						
Beginning balance as of January 1, 2014	$ 42,902	$ -	$ 255,086	$ 4,062	$ 139,679	$ 441,729	$ (18,230)
Total realized and unrealized gains (losses) included on trading securities in net income	161	716	33,977	(6)	1,822	36,670	4,823
Total unrealized gains (losses) included on available-for-sale securities in comprehensive net income (loss)	-	-	-	-	-	-	-
Purchases	-	-	-	-	14,447	14,447	-
Settlements	(18,409)	(80)	(19,082)	(665)	(9,325)	(47,561)	-
Transfers into and/or (out of) Level 3, net	-	5,202	(406)	(3,117)	(107,772)	(106,093)	-
Ending balance as of December 31, 2014	$ 24,654	$ 5,838	$ 269,575	$ 274	$ 38,851	$ 339,192	$ (13,407)

Changes in classifications impacting Level 3 financial instruments were reported in the above tables as transfers into (out of) the Level 3 category at the end of each quarterly period in which the transfers occurred. The portion of net unrealized gains for the three month periods ended March 31, 2015 and 2014 that related to Level 3 trading securities still held at the reporting date was $3.1 million and $16.9 million, respectively.

4. Fair Value Measurements (continued)

The following tables summarizes the fair values, the valuation techniques, and the significant unobservable inputs of the Level 3 fair value measurements as of March 31, 2015 and December 31, 2014, for which we have been able to obtain quantitative information about the significant unobservable inputs used in those fair value measurements:

March 31, 2015

Assets (U.S. dollars in millions)	**Fair Value**	**Valuation Technique**	**Significant Unobservable Inputs**	**Input Ranges**
Corporate securities	$ 14,273	Discounted Cash Flow	Liquidity/duration adjustment*	0.6% - 1.3%
Mortgage and asset-backed securities	$ 13,644	Discounted Cash Flow	Liquidity/duration adjustment*	1.3% - 1.6%

December 31, 2014

Assets (U.S. dollars in millions)	**Fair Value**	**Valuation Technique**	**Significant Unobservable Inputs**	**Input Ranges**
Corporate securities	$ 17,423	Discounted Cash Flow	Liquidity/duration adjustment*	0.5% - 2.8%
Mortgage and asset-backed securities	$ 23,786	Discounted Cash Flow	Liquidity/duration adjustment*	1.1% - 1.7%

** The liquidity/duration adjustment input represents an estimated market participant composite interest spread that would be applied to the risk-free rate to discount the estimated projected cash flows for individual securities, and such liquidity/duration adjustment would reflect adjustments attributable to liquidity premiums, expected durations, credit structures, credit quality, etc., as applicable.*

We have excluded from the tables above Level 3 fair value measurements obtained from independent, third-party pricing sources, including prices obtained from brokers, for which we do not develop the significant inputs used to measure the fair values and information regarding the significant inputs is not readily available to us from the independent, third-party pricing sources or brokers.

4. Fair Value Measurements (continued)

Fair Value Measurements on a Non-Recurring Basis

As discussed in this Note, the fair values of financial assets and liabilities are estimated in accordance with the framework established under FASB ASC 820. The methodology for determining the fair value of financial instruments on a non-recurring basis, in addition to the fair value of financial instruments on a recurring basis and to those disclosed above in Note 3, "Investments", are described in Note 2, "Summary of Significant Accounting Policies - *Investments*", and Note 5, "Fair Value Measurements" in the Company's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2014. The following table sets forth the fair values of our financial instruments, as of the dates indicated:

	March 31, 2015			
(U.S. dollars in thousands)	**Carrying Balance**	**Level 1**	**Level 2**	**Level 3**
		Estimated Fair Value		
Assets				
Cash and cash equivalents	$ 254,582	$ 254,582	$ -	$ -
Affiliated investments	34,527	-	-	34,527
Other investments	2,890	-	-	2,890
Funds withheld at interest	419,387	-	-	419,387
Accrued interest receivable	10,312	-	10,312	-
Liabilities				
Interest-sensitive contract liabilities	$ 886,640	$ -	$ -	$ 885,864
Collateral finance facility	450,000	-	-	172,584
Embedded derivative liabilities, at fair value	14,254	-	-	14,254
Long-term debt, at par value	86,500	-	55,753	-

	December 31, 2014			
(U.S. dollars in thousands)	**Carrying Balance**	**Level 1**	**Level 2**	**Level 3**
		Estimated Fair Value		
Assets				
Cash and cash equivalents	$ 227,871	$ 227,871	$ -	$ -
Affiliated investments	40,176	-	-	40,176
Other investments	2,957	-	-	2,957
Funds withheld at interest	425,575	-	-	425,575
Accrued interest receivable	10,878	-	10,878	-
Liabilities				
Interest-sensitive contract liabilities	$ 942,990	$ -	$ -	$ 942,209
Collateral finance facility	450,000	-	-	189,506
Embedded derivative liabilities, at fair value	13,407	-	-	13,407
Long-term debt, at par value	86,500	-	56,157	-

5. Collateral Finance Facility and Securitization Structure

Orkney Re II

Historical information regarding the Orkney Re II collateral finance facility and securitization structure is discussed in Note 8, "Collateral Finance Facilities and Securitization Structures – *Orkney Re II*" in the Company's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2014.

The following table reflects the significant balances included in the accompanying Consolidated Balance Sheets that were attributable to the Orkney Re II collateral finance facility and securitization structure:

	March 31, 2015	December 31, 2014
(U.S. dollars in thousands)		
Assets		
Funds withheld at interest	$ 368,004	$ 376,948
Cash and cash equivalents	11,856	12,024
Embedded derivative assets	54,925	55,234
All other assets	38,314	33,956
Total assets	$ 473,099	$ 478,162
Liabilities		
Reserves for future policy benefits	$ 135,805	$ 135,021
Collateral finance facility	450,000	450,000
All other liabilities	58,694	55,813
Total liabilities	$ 644,499	$ 640,834

The assets listed in the foregoing table are subject to a variety of restrictions on their use, as set forth in and governed by the transaction documents for the Orkney Re II collateral finance facility and securitization structure. The total investments of the consolidated VIE disclosed in the accompanying Consolidated Balance Sheets include the deduction of the assets needed to satisfy future policy benefits, based on current projections ("economic reserves"). The following table provides a reconciliation of the aforementioned adjustments:

(U.S. dollars in thousands)	March 31, 2015	December 31, 2014
Funds withheld at interest	$ 368,004	$ 376,948
Cash and cash equivalents	11,856	12,024
Embedded derivative assets	54,925	55,234
Total investments	$ 434,785	$ 444,206
Less: Economic reserves	(155,873)	(157,136)
Total investments in consolidated VIE	$ 278,912	$ 287,070

The reinsurance liabilities of Orkney Re II have been eliminated from the Consolidated Balance Sheets.

Orkney Re II Event of Default, Acceleration and Foreclosure

Orkney Re II has been unable to make scheduled interest payments on the Series A-1 Notes and Series A-2 Notes on all scheduled quarterly interest payment dates since May 11, 2009. As of March 31, 2015, Assured Guaranty (UK) Ltd. ("Assured") has made guarantee payments in the cumulative amount of $18.6 million on the Series A-1 Notes which are the subject of a financial guaranty policy issued by Assured in connection with the

5. Collateral Finance Facility and Securitization Structure (continued)

Orkney Re II transaction. Unlike the Series A-1 Notes, the Series A-2 Notes were not guaranteed under the Orkney Re II transaction and the amount of cumulative interest on the Series A-2 Notes was $2.8 million as of March 31, 2015. We have accrued this amount of cumulative interest on the Series A-1 Notes and the Series A-2 Notes in Accounts Payable and Other Liabilities in the Consolidated Balance Sheets. Interest on the Series A-1 Notes on which Assured is making guarantee payments is payable quarterly at a rate equivalent to three-month LIBOR plus 0.425%. As of March 31, 2015, the interest rate on the Series A-1 Notes was 0.68% (compared to 0.66% as of December 31, 2014). Interest on the Series A-2 Notes, which are not guaranteed as part of the Orkney Re II transaction, is payable quarterly at a rate equivalent to three-month LIBOR plus 0.730%. As of March 31, 2015, the interest rate on the Series A-2 Notes was 0.99% (compared to 0.96% as of December 31, 2014). For further discussion on Orkney Re II and scheduled interest payments on the Series A-1 Notes and the Series A-2 Notes, please refer to Note 11, "Subsequent Events - *Orkney Re II*".

6. Debt Obligations and Other Funding Arrangements

Long-term debt, at par value (collectively, the "Capital and Trust Preferred Securities"), is individually defined and described in Note 9, "Debt Obligations and Other Funding Arrangements" in the notes accompanying the Company's audited consolidated financial statements for the year ended December 31, 2014. The pertinent details regarding long-term debt, at par value are shown in the following table:

(U.S. dollars in thousands)	Capital Securities Due 2032*	Preferred Trust Securities Due 2033*	Trust Preferred Securities Due 2033*	Trust Preferred Securities Due 2034*	Trust Preferred Securities Due December 2034*
Issuer of long-term debt	Capital Trust*	Capital Trust II*	GPIC Trust*	Capital Trust III*	SFL Trust I*
Long-term debt outstanding	$17,500	$nil**	$nil***	$19,000****	$50,000
Maturity date	Dec 4, 2032	Oct 29, 2033	Sept 30, 2033	June 17, 2034	Dec 15, 2034
Redeemable (in whole or in part) after	Dec 4, 2007	Oct 29, 2008	Sept 30, 2008	June 17, 2009	Dec 15, 2009
Interest Payable	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Interest rate: 3-month LIBOR +	4.00%	3.95%	3.90%	3.80%	3.50%
Interest rate as of March 31, 2015	4.27%	4.22%	4.17%	4.07%	3.77%
Interest rate as of December 31, 2014	4.26%	4.21%	4.16%	4.06%	3.76%
Maximum number of quarters for which interest may be deferred	20	20	20	20	20
Number of quarters for which interest has been deferred as of March 31, 2015	9	9	9	9	9

** Defined in the notes accompanying SRGL's audited consolidated financial statements for the year ended December 31, 2014.*
***SRGL owns all $20.0 million of the Preferred Trust Securities Due 2033 securities, as further explained in this Note.*
****SRGL owns all $10.0 million of the Trust Preferred Securities Due 2033 securities, as further explained in this Note.*
*****SRGL owns $13.0 million of the Trust Preferred Securities Due 2034 securities.*

6. Debt Obligations and Other Funding Arrangements (continued)

Preferred Trust Securities Due 2033

On December 3, 2014, SRGL agreed to acquire, in a privately-negotiated transaction, the entire $20.0 million in aggregate liquidation amount of Preferred Trust Securities Due 2033, with a liquidation preference of $1,000 per security, at a purchase price of $665.00 per security. In accordance with FASB ASC 405, Extinguishment of Liabilities, the Company recorded a $8.5 million gain on the extinguishment of debt (which included $1.8 million in deferred and accrued interest that is now payable to SRGL following the acquisition) in the Consolidated Statements of Comprehensive Income in the fourth quarter of 2014.

Trust Preferred Securities Due 2033

On December 3, 2014, SRGL agreed to acquire, in a privately-negotiated transaction, the entire $10.0 million in aggregate liquidation amount of Trust Preferred Securities Due 2033, with a liquidation preference of $1,000 per security, at a purchase price of $665.00 per security. In accordance with FASB ASC 405, Extinguishment of Liabilities, the Company recorded a $4.2 million gain on the extinguishment of debt (which included $0.9 million in deferred and accrued interest that is now payable to SRGL following the acquisition) in the Consolidated Statements of Comprehensive in the fourth quarter of 2014.

Deferral of Interest Payments on the Capital and Trust Preferred Securities

We began deferring interest payments as of January 29, 2013 on the Capital and Trust Preferred Securities as permitted by the terms of the indentures governing the securities. As of March 31, 2015, we have accrued and deferred net payments of $13.4 million in interest on the Capital and Trust Preferred Securities. SHI, SFL, and SALIC generally are restricted in their ability to make certain dividend payments and payments in respect of obligations ranking junior or *pari passu* to the Capital and Trust Preferred Securities in any period where interest payment obligations on these securities are not current.

For further discussion on the accrued and deferred payment on our Capital and Trust Preferred Securities subsequent to March 31, 2015, please refer to Note 11, "Subsequent Events – *Deferral of Interest Payments on the Capital and Trust Preferred Securities*".

7. Mezzanine Equity – Convertible Cumulative Participating Preferred Shares

We accounted for the 2007 issuance of Convertible Cumulative Participating Preferred Shares (the "CCPP Shares") to the Investors, in accordance with FASB ASC Subtopic 470-20, Debt – Debt with Conversion and Other Options ("FASB ASC 470-20"), which incorporates EITF D-98: "Classification and Measurement of Redeemable Securities".

As of March 31, 2015, the net amount of dividends accreted pursuant to the terms of the CCPP Shares was $268.6 million in the aggregate, or $268.58 per share. For further discussion and additional disclosures regarding the CCPP Shares, please refer to Note 10, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares" in the notes accompanying the Company's audited consolidated financial statements for the year ended December 31, 2014.

8. Shareholders' Deficit

Ordinary Shares

We are authorized to issue 590,000,000 ordinary shares (the "Ordinary Shares") with a par value of $0.01 per share.

As of March 31, 2015 and December 31, 2014, we have 68,383,370 Ordinary Shares issued and outstanding.

Perpetual Preferred Shares

We are authorized to issue 50,000,000 preferred shares with a par value of $0.01 per share.

In 2005, we issued 5,000,000 non-cumulative Perpetual Preferred Shares (the "Perpetual Preferred Shares"). Gross proceeds were $125 million, and related expenses were $4.6 million. As of March 31, 2015, we have repurchased and cancelled 1,753,224 Perpetual Preferred Shares. As of March 31, 2015 and December 31, 2014, we have 3,246,776 Perpetual Preferred Shares issued and outstanding.

The dividend rate on the Perpetual Preferred Shares may be at a fixed rate determined through remarketing of the Perpetual Preferred Shares for specific periods of varying length not less than six months or may be at a floating rate reset quarterly based on a predefined set of interest rate benchmarks. The quarterly floating rates for March 31, 2015 and 2014 were 6.07% and 7.00%, respectively. During any dividend period, unless the full dividends for the current dividend period on all outstanding Perpetual Preferred Shares have been declared or paid, no dividend may be paid or declared on the Ordinary Shares and no Ordinary Shares or other junior shares may be purchased, redeemed, or otherwise acquired for consideration by SRGL. Please refer below to "*Dividends on Perpetual Preferred Shares*" in the Note below for additional information.

Dividends on Ordinary Shares

The Investors, as the holders of the Ordinary Shares, are entitled to receive dividends and are allowed one vote per share subject to certain restrictions in our Memorandum and Articles of Association.

All future payments of dividends are at the discretion of our Board of Directors (the "Board") and will depend on such factors as the Board may deem relevant. Notwithstanding the foregoing, if dividends on the Perpetual Preferred Shares have not been declared and paid (or declared and a sum sufficient for the payment thereof set aside) for a dividend period, we generally are precluded from paying or declaring any dividend on the Ordinary Shares.

Dividends on Perpetual Preferred Shares

In accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares, our Board was precluded from declaring and paying a dividend in connection with each of the 2014 dividend payment dates.

Pursuant to the terms of, and subject to the procedures set forth in, the Certificate of Designations related to the Perpetual Preferred Shares, the holders of the Perpetual Preferred Shares are entitled to elect two directors to our Board in the event dividends on the Perpetual Preferred Shares have not been declared and paid for six or more dividend periods, whether or not consecutive (a "Nonpayment"). Failure to declare and pay dividends on the July 15, 2009 dividend payment date marked the sixth dividend period for which dividends had not been declared and paid (i.e., a Nonpayment); however, the right of the holders of the Perpetual Preferred Shares to elect two directors to our Board has not been exercised as of March 31, 2015. If and when dividends for at least four dividend periods, whether or not consecutive, following a Nonpayment have been paid in full, this right will cease.

There can be no assurances when or whether, as a result of the application of the financial tests contained in the terms of the Perpetual Preferred Shares, our Board will be permitted to make subsequent dividend payments on the

8. Shareholders' Deficit (continued)

Perpetual Preferred Shares or, if permitted, when or whether our Board will choose in its discretion to make any such dividend payments on the Perpetual Preferred Shares.

For further discussion on the non-declaration of the Perpetual Preferred Shares dividends, please refer to Note 11, "Subsequent Events – *Non-declaration of Dividend on Perpetual Preferred Shares*".

9. Income Taxes

The income tax benefit for the three month periods ended March 31, 2015 and 2014 was $2.5 million and $9.6 million, respectively. Any net incomes from the operations of our Cayman Island entities are not subject to income tax. The operations of our U.S., Bermuda, and Irish entities did not generate a current tax expense, other than potential interest and penalties on accrued tax liabilities for unrecognized tax benefits, due to the operating performance and the availability of tax losses from prior tax years. The U.S. life entity did generate a current tax expense due to the prior year loss utilization limitation for the Alternative Minimum Tax. However, the current tax expense is minimal and does not materially affect the net tax benefit. The utilization of tax losses results in a reduction in deferred tax assets and a corresponding reduction in the valuation allowance established against those deferred tax assets. The income tax benefit for the three month periods ended March 31, 2015 and 2014 were principally due to a reduction of the deferred tax liability for items reversing outside of the 15 year net operating loss carryforward period in the U.S.

As of March 31, 2015, we had total unrecognized tax benefits (excluding interest and penalties) of $2.2 million, the recognition of which would result in a $0.7 million benefit at the effective tax rate for the applicable period. The total unrecognized tax benefits figure (excluding interest and penalties) and the resulting tax benefit recognition figure were unchanged from March 31, 2015 and December 31, 2014.

As of March 31, 2014, we had total unrecognized tax benefits (excluding interest and penalties) of $3.1 million, the recognition of which would result in a $1.5 million benefit at the effective tax rate for the applicable period. The total unrecognized tax benefits figure (excluding interest and penalties) and the resulting tax benefit recognition figure were unchanged from March 31, 2014 and December 31, 2013.

As of March 31, 2015, we have changed the U.S. federal tax rate used to calculate the current and deferred income tax expense from 34% to 35%. If the U.S. group was in a taxable income position, the taxable income would likely be sufficient to qualify for taxation at the 35% U.S. federal tax rate. Therefore, we believe this change to be appropriate. The total impact of the rate change is a $6.9 million addition to the deferred tax assets of the U.S. group; however, the impact is offset by a valuation allowance as discussed below.

Our deferred tax assets are principally supported by the reversal of deferred tax liabilities. We currently establish a valuation allowance against deferred tax assets when it is more likely than not that some portion, or all, of our deferred tax assets will not be realized. We have maintained a full valuation allowance against any remaining deferred tax asset associated with our operations in the U.S. and Ireland, given our inability to rely on future taxable income projections and the scheduling of our current deferred tax liabilities.

As of March 31, 2015 and December 31, 2014, our deferred tax liabilities included $29.0 million and $31.5 million, respectively, of deferred tax liabilities that reverse after the expiration of net operating loss carryforwards in applicable jurisdictions, and, therefore, cannot support deferred tax assets.

9. Income Taxes (continued)

We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. As of March 31, 2015, we remained subject to examination in the following major tax jurisdictions for the returns filed for the years indicated below:

Major Tax Jurisdictions	Open Years
U.S.	
Life Group	2011 through 2014
Non-Life Group	2011 through 2014
Ireland	2010 through 2014

Our U.S. subsidiaries are subject to U.S. federal, state, and local corporate income taxes and other taxes applicable to U.S. corporations. Upon distribution of current or accumulated earnings and profits in the form of dividends or otherwise from our U.S. subsidiaries to us, we would be subject to U.S. withholding taxes at a 30% rate.

Net operating losses are being carried forward from closed years and could be examined by the applicable tax authorities if utilized in an open tax year in the future. Additionally, to the extent that a net operating loss is carried back to an otherwise closed year, that earlier year could be subject to examination as long as the loss year remains open.

10. Commitments and Contingencies

Ballantyne Re plc

Ballantyne Re plc ("Ballantyne Re"), which previously was a consolidated VIE of the Company, 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, $178.0 million of Class C Notes to SALIC, $181.2 million in preference shares to SALIC, and $500,000 in Class D Notes to SRGL.

As of March 31, 2015, we have no remaining direct loss exposure related to Ballantyne Re since our interests in the Ballantyne Re Class D Notes and Preferred Shares are valued at $0. The Class C Notes were fully written-off in 2008 under the contractual terms of the Ballantyne Re indenture.

SRUS remains liable for the accuracy and performance of certain representations, warranties, covenants, and other obligations that relate to periods before the assignment and novation to Security Life of Denver Insurance Company of the reinsurance agreement with Ballantyne Re. In addition, SRGL and SRUS remain responsible for certain ongoing covenants and indemnities made for the benefit of Ballantyne Re and the financial guarantors of certain of the notes issued by Ballantyne Re.

Indemnification of Our Directors, Officers, Employees, and Agents

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

10. Commitments and Contingencies (continued)

Davis v. Scottish Re Group Limited, et al.

SRGL and SRUS (together, "Scottish Re") learned that a lawsuit was filed on or about November 20, 2013, in New York state court against Scottish Re, SRGL's shareholders and certain of their affiliates, and various former and current directors of Scottish Re (collectively, the "Defendant Parties"). The plaintiff, a holder of Perpetual Preferred Shares and a former holder of Ordinary Shares (please refer to Note 8, "Shareholders' Deficit" for information regarding the Perpetual Preferred Shares and the Ordinary Shares), alleges, among other things, claims against the Defendant Parties for breach of contract, breach of fiduciary duty, tortious interference, and derivative claims centered largely around the following events:

- the 2011 unwind of a formerly consolidated collateral finance facility and the associated acquisition by affiliates of Cerberus of debt related to the collateral finance facility;
- the completion in 2011 of a cash-out merger between SRGL and affiliates of the Investors;
- the cancellation by SRGL of Perpetual Preferred Shares acquired pursuant to cash tender offers made by SRGL in 2010 and 2012; and
- a purported distribution policy affecting the Perpetual Preferred Shares.

On February 21, 2014, Motions to Dismiss were filed with the court on behalf of the Defendant Parties pursuant to a briefing schedule previously agreed with the court and the plaintiff. Pursuant to that schedule, the plaintiff submitted on May 7, 2014 its opposition to the Motions to Dismiss. The Defendant Parties submitted replies in further support of their Motions to Dismiss on June 23, 2014. Oral arguments on the Motions to Dismiss were heard by the court on September 29, 2014.

Following oral arguments on the Motions to Dismiss on September 29, 2014, on October 7, 2014, the presiding judge issued a decision dismissing all claims against the Defendant Parties, with the exception of two breach of contract claims against SRGL. The judge directed that the plaintiff and SRGL engage in jurisdictional discovery limited to these two claims, which jurisdictional discovery has commenced. After jurisdictional discovery is complete, the judge will decide whether these claims should also be dismissed on jurisdictional grounds. The plaintiff filed on October 28, 2014 his opening appellate brief challenging the court's October 7, 2014 decision.

Following the plaintiff's filing on October 28, 2014 of his opening appellate brief challenging the October 7, 2014 decision of the court, Scottish Re and the other Defendant Parties filed opposition briefs with the court. Thereafter, the plaintiff filed his reply brief with the court on February 13, 2015.

SRUS has certain obligations to indemnify those Defendant Parties that are current or former directors of SRUS for the reasonable cost of their defense of the Davis lawsuit.

We believe the plaintiff's allegations to be without merit and are vigorously defending our interest in the action. Accordingly, it is not possible to estimate any loss in respect of the plaintiff's claims.

For further discussion regarding the Davis v. Scottish Re Group Limited, et al. litigation, please refer to Note 11, "Subsequent Events – *Davis vs. Scottish Re Group Limited, et al.*".

11. Subsequent Events

The subsequent events disclosed in these notes to the consolidated financial statements have been evaluated by Company management up to and including the filing of these consolidated financial statements on May 14, 2015.

11. Subsequent Events (continued)

Non-declaration of Dividends on Perpetual Preferred Shares

In accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares, our Board was precluded from declaring and paying a dividend on the April 15, 2015 dividend payment date.

Deferral of Interest Payments on the Capital and Trust Preferred Securities

We continued to accrue and defer payments of interest on our Capital and Trust Preferred Securities (as outlined in Note 6, "Debt Obligations and Other Funding Arrangements"). These deferrals are permitted by terms of the indentures governing the Capital and Trust Preferred Securities and have been made at the discretion of our Board. As of May 14, 2015, we had accrued and deferred a net payment on a total of $13.4 million of interest on our Capital and Trust Preferred Securities.

Orkney Re II

On the scheduled interest payment date of May 11, 2015, Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes and the Series A-2 Notes. As a result, Assured, subject to the financial guaranty policy issued by Assured, as discussed in Note 5, "Collateral Finance Facility and Securitization Structure", made guarantee payments on the Series A-1 Notes in the amount of $0.6 million. The interest amount for the Series A-2 Notes, which were not guaranteed under the Orkney Re II transaction, was $0.1 million. We have accrued the interest on both the Series A-1 Notes and the Series A-2 Notes.

Davis v. Scottish Re Group Limited, et al.

Following the plaintiff's filing on February 13, 2015 of his reply brief with the court, as previously discussed in Note 10, "Commitments and Contingencies – *Davis v. Scottish Re Group Limited, et al*.", oral arguments on the appellate brief are scheduled to be heard by the court on June 9, 2015.