SCOTTISH RE GROUP LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016

(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, 2016 (Unaudited)	December 31, 2015 (Audited)
Assets		
Fixed-maturity investments held as trading securities, at fair value	$ 1,169,509	$ 1,218,972
Fixed-maturity investments held as available-for-sale securities, at fair value (amortized cost: 2016 – $418,000; 2015 – $343,251)	419,572	338,533
Cash and cash equivalents	139,344	166,277
Affiliated investments	42,887	44,235
Other investments	2,554	2,744
Funds withheld at interest	376,550	388,356
Total investments[1]	2,150,416	2,159,117
Accrued interest receivable[2]	10,149	9,865
Amounts recoverable from reinsurers	657,359	657,402
Reinsurance balances receivable	117,931	123,079
Deferred acquisition costs	27,652	26,992
Other assets	3,854	4,194
Total assets	$ 2,967,361	$ 2,980,649
Liabilities		
Reserves for future policy benefits	$ 1,278,846	$ 1,267,247
Interest-sensitive contract liabilities	803,045	824,796
Collateral finance facility[3]	450,000	450,000
Reinsurance balances payable	53,702	54,708
Accounts payable and other liabilities[4]	88,038	84,312
Deferred tax liabilities	26,076	25,870
Embedded derivative liabilities, at fair value	22,831	16,871
Long-term debt, at par value	86,500	86,500
Total liabilities	2,809,038	2,810,304
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: 2016 – $912.2 million; 2015 – $901.2 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	1,572	(4,718)
Retained deficit	(1,699,149)	(1,680,837)
Total shareholders' deficit	(397,534)	(385,512)
Total liabilities, mezzanine equity, and total shareholders' deficit	$ 2,967,361	$ 2,980,649
[1] Includes total investments of consolidated variable interest entity ("VIE")	$ 268,630	$ 275,730
[2] Includes accrued interest receivable of consolidated VIE	1,428	1,333
[3] Reflects collateral finance facility of consolidated VIE	450,000	450,000
[4] Reflects accounts payable and other liabilities of consolidated VIE	67,329	64,573

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, 2016	**March 31, 2015**
Revenues		
Premiums earned, net	$ 78,321	$ 83,333
Investment income, net	16,851	20,230
Net realized and unrealized gains (losses)	(3,423)	7,200
Change in fair value of embedded derivative assets and liabilities	(5,960)	(847)
Fees and other income	484	557
Total revenues	86,273	110,473
Benefits and expenses		
Claims, policy benefits, and changes in policyholder reserves, net	83,433	101,190
Interest credited to interest-sensitive contract liabilities	5,474	5,802
Other insurance expenses including amortization of deferred acquisition costs, net	7,102	15,467
Operating expenses	4,456	5,659
Collateral finance facilities expense	2,911	2,527
Interest expense	1,003	906
Total benefits and expenses	104,379	131,551
Income (loss) before income taxes	(18,106)	(21,078)
Income tax benefit (expense)	(206)	2,455
Net income (loss)	(18,312)	(18,623)
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on available-for-sale investments, net of tax	6,290	357
Total other comprehensive income (loss), net of tax	6,290	357
Total comprehensive income (loss)	$ (12,022)	$ (18,266)

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, 2016	Three month period ended March 31, 2015
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	(4,718)	(24)
Other comprehensive income (loss), net of taxes	6,290	357
End of period	1,572	333
Retained deficit:		
Beginning of period	(1,680,837)	(1,425,339)
Net income (loss)	(18,312)	(18,623)
End of period	(1,699,149)	(1,443,962)
Total shareholders' deficit	$ (397,534)	$ (143,586)

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, 2016	Three month period ended March 31, 2015
Operating activities		
Net income (loss)	$ (18,312)	$ (18,623)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Net realized and unrealized (gains) losses	3,423	(7,200)
Changes in value of embedded derivative assets and liabilities	5,960	847
Amortization of fixed-maturity investments – available-for-sale	103	16
Amortization of deferred acquisition costs	(660)	6,974
Amortization of present value of in-force business	-	609
Amortization of deferred finance facility costs	155	217
Depreciation of fixed assets	12	18
Changes in assets and liabilities:		
Funds withheld at interest	11,806	6,188
Accrued interest receivable	(284)	566
Reinsurance balances receivable	5,148	31,263
Other assets	180	190
Reserves for future policy benefits, net of amounts recoverable from reinsurers	11,642	3,108
Interest-sensitive contract liabilities	(10,071)	(5,669)
Accounts payable and other liabilities, including deferred tax liabilities	3,932	(2,223)
Reinsurance balances payable	(1,006)	(16,508)
Net cash provided by (used in) operating activities	12,028	(227)
Investing activities		
Purchase of fixed-maturity investments – available-for-sale	(77,053)	(51,009)
Proceeds from sales and maturities of fixed-maturity investments – trading	47,710	126,372
Proceeds from sales and maturities of fixed-maturity investments – available-for-sale	2,198	46
Proceeds from sales of preferred stock	-	1,280
Purchases of and proceeds from affiliated investments, net	(298)	862
Purchase of and proceeds from other investments, net	190	67
Net cash provided by (used in) investing activities	(27,253)	77,618
Financing activities		
Withdrawals from interest-sensitive contract liabilities	(11,708)	(50,680)
Net cash provided by (used in) financing activities	(11,708)	(50,680)
Net change in cash and cash equivalents	(26,933)	26,711
Cash and cash equivalents, beginning of period	166,277	227,871
Cash and cash equivalents, end of period	$ 139,344	$ 254,582

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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 the SRGL 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, 2016, 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")

<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.*

** *The other Luxembourg subsidiary, Scottish Holdings (Luxembourg), 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, 2015, 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 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, 2015.

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. 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.

The assumptions impact:

- investment valuations;
- accounting for embedded derivative instruments;
- assessment of risk transfer for structured insurance and reinsurance contracts;
- estimates of premiums;
- 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.

Where applicable, management periodically reviews and revises these estimates, as appropriate. Any adjustments made to these estimates are reflected in the period in which the estimates are revised.

3. Investments

Trading Investments

The estimated fair values of our fixed-maturity investments held as trading securities as of March 31, 2016 and December 31, 2015, were as follows:

(U.S. dollars in thousands)	March 31, 2016	December 31, 2015
U.S. Treasury securities and U.S. government agency obligations	$ 19,984	$ 20,619
Corporate securities	379,087	388,367
Municipal bonds	30,128	29,646
Residential mortgage-backed securities	381,045	398,641
Commercial mortgage-backed securities	123,916	131,858
Asset-backed securities	235,349	249,841
Total	$ 1,169,509	$ 1,218,972

The contractual maturities of the fixed-maturity investments held as trading securities as of March 31, 2016 and December 31, 2015, were as follows (actual maturities may differ as a result of calls and prepayments):

(U.S. dollars in thousands)	Estimated Fair Value March 31, 2016	Estimated Fair Value December 31, 2015
Due in one year or less	$ 50,194	$ 49,979
Due after one year through five years	246,751	251,529
Due after five years through ten years	86,114	89,935
Due after ten years	46,140	47,189
	429,199	438,632
Residential mortgage-backed securities	381,045	398,641
Commercial mortgage-backed securities	123,916	131,858
Asset-backed securities	235,349	249,841
Total	$ 1,169,509	$ 1,218,972

3. Investments (continued)

Available-for-Sale Investments

The amortized cost and estimated fair value of fixed maturity securities classified as available-for-sale as of March 31, 2016 and December 31, 2015, were as follows:

(U.S. dollars in thousands)	March 31, 2016				
		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	$ 22,707	$ 273	$ -	$ -	$ 22,980
Corporate securities	258,597	4,185	(1,380)	-	261,402
Municipal bonds	-	-	-	-	-
Residential mortgage-backed securities	-	-	-	-	-
Commercial mortgage-backed securities	23,838	279	(480)	-	23,637
Asset-backed securities	112,858	79	(1,384)	-	111,553
Total securities	$ 418,000	$ 4,816	$ (3,244)	$ -	$ 419,572

(U.S. dollars in thousands)	December 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	$ 22,109	$ -	$ (153)	$ -	$ 21,956
Corporate securities	201,607	304	(3,148)	-	198,763
Municipal bonds	-	-	-	-	-
Residential mortgage-backed securities	-	-	-	-	-
Commercial mortgage-backed securities	22,440	-	(459)	-	21,981
Asset-backed securities	97,095	6	(1,268)	-	95,833
Total securities	$ 343,251	$ 310	$ (5,028)	$ -	$ 338,533

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, 2016 and December 31, 2015, were as follows:

3. Investments (continued)

(U.S. dollars in thousands)	March 31, 2016 Less than 12 months Estimated Fair Value	Less than 12 months Unrealized Losses	12 months or more Estimated Fair Value	12 months or more Unrealized Losses	Total Estimated Fair Value	Total Unrealized Losses
U.S. Treasury securities and U.S. government agency obligations	$ -	$ -	$ -	$ -	$ -	$ -
Corporate securities	58,174	(1,150)	6,664	(230)	64,838	(1,380)
Municipal bonds	-	-	-	-	-	-
Residential mortgage-backed securities	-	-	-	-	-	-
Commercial mortgage-backed securities	10,616	(480)	-	-	10,616	(480)
Asset-backed securities	81,091	(1,191)	18,303	(193)	99,394	(1,384)
Total available-for-sale fixed maturities	$ 149,881	$ (2,821)	$ 24,967	$ (423)	$ 174,848	$ (3,244)

(U.S. dollars in thousands)	December 31, 2015 Less than 12 months Estimated Fair Value	Less than 12 months Unrealized Losses	12 months or more Estimated Fair Value	12 months or more Unrealized Losses	Total Estimated Fair Value	Total Unrealized Losses
U.S. Treasury securities and U.S. government agency obligations	$ 21,456	$ (153)	$ -	$ -	$ 21,456	$ (153)
Corporate securities	152,308	(3,135)	94	(13)	152,402	(3,148)
Municipal bonds	-	-	-	-	-	-
Residential mortgage-backed securities	-	-	-	-	-	-
Commercial mortgage-backed securities	21,981	(459)	-	-	21,981	(459)
Asset-backed securities	94,256	(1,268)	-	-	94,256	(1,268)
Total available-for-sale fixed maturities	$ 290,001	$ (5,015)	$ 94	$ (13)	$ 290,095	$ (5,028)

The total number of securities classified as available-for-sale that had unrealized losses as of March 31, 2016 and December 31, 2015, were 119 and 247, 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, or until maturity of the individual securities, the Company does not consider these investments other than temporarily impaired.

3. Investments (continued)

The contractual maturities of the fixed-maturity investments classified as available-for-sale securities as of March 31, 2016 and December 31, 2015, 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)	**March 31, 2016**	**March 31, 2016**
Due in one year or less	$ 1,966	$ 1,982
Due after one year through five years	97,911	98,703
Due after five years through ten years	163,007	165,211
Due after ten years	18,420	18,486
	281,304	284,382
Residential mortgage-backed securities	-	-
Commercial mortgage-backed securities	23,838	23,637
Asset-backed securities	112,858	111,553
Total	$ 418,000	$ 419,572

	Cost or Amortized Cost	Estimated Fair Value
(U.S. dollars in thousands)	**December 31, 2015**	**December 31, 2015**
Due in one year or less	$ 1,992	$ 2,007
Due after one year through five years	72,572	71,865
Due after five years through ten years	137,527	135,398
Due after ten years	11,625	11,449
	223,716	220,719
Residential mortgage-backed securities	-	-
Commercial mortgage-backed securities	22,440	21,981
Asset-backed securities	97,095	95,833
Total	$ 343,251	$ 338,533

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.)

3. Investments (continued)

The estimated fair value of the components of the restricted assets as of March 31, 2016 and December 31, 2015, were as follows:

(U.S. dollars in thousands)	March 31, 2016	December 31, 2015
Deposits with U.S. regulatory authorities	$ 4,566	$ 4,551
Trust funds* attributable to VIE	425,502	428,851
Trust funds*	668,673	675,407
Total	$ 1,098,741	$ 1,108,809

**"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 held as trading securities, fixed-maturity investments held as available-for-sale, cash and cash equivalents, and funds withheld at interest in the Consolidated Balance Sheets.*

Net Investment Income

Net investment income on investments and other balances for the three month periods ended March 31, 2016 and 2015, was derived from the following sources:

(U.S. dollars in thousands)	Three Month Period Ended March 31, 2016	Three Month Period Ended March 31, 2015
Fixed-maturity investments, held as trading	$ 11,118	$ 17,538
Fixed-maturity investments, held as available-for-sale	2,868	151
Preferred stock	-	14
Funds withheld at interest	3,076	3,421
Other investments	193	48
Investment expenses	(404)	(942)
Net investment income	$ 16,851	$ 20,230

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, 2016 and 2015, were as follows:

3. Investments (continued)

(U.S. dollars in thousands)	Three Month Period Ended March 31, 2016	Three Month Period Ended March 31, 2015
Realized and unrealized gains (losses)		
Fixed-maturity investments		
Gross realized gains	$ 102	$ 2,218
Gross realized losses	-	(63)
Net unrealized gains (losses), trading securities	(1,858)	9,813
	(1,756)	11,968
Preferred stock		
Gross realized gains	-	13
Net unrealized gains, trading securities	-	-
	-	13
Other		
Cerberus Affiliated Fund* - unrealized gains	(1,647)	(4,787)
Realized losses on modified coinsurance treaties	(28)	(1)
Other	8	7
	(1,667)	(4,781)
Net realized and unrealized gains (losses)	$ (3,423)	$ 7,200

** Defined in the "Affiliated Investments" section in this Note.*

Affiliated Investments

Affiliated investments represent investments accounted for under the equity method, in accordance with FASB ASC 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, 2016 and December 31, 2015, which were as follows:

(U.S. dollars in thousands)	March 31, 2016	December 31, 2015
Cost (Total Commitment)	$ 28,852	$ 28,553
Carrying Value	$ 42,887	$ 44,235

4. Fair Value Measurements

FASB ASC 820 Fair Value Measurements and Disclosures ("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, 2015, which, along with Note 3, "Investments" above, also includes additional disclosures regarding our fair value measurements.

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 dates indicated:

	March 31, 2016			
(U.S. dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments – trading				
U.S. Treasury securities and U.S. government agency obligations	$ -	$ 19,984	$ -	$ 19,984
Corporate securities	-	371,940	7,147	379,087
Municipal bonds	-	30,128	-	30,128
Residential mortgage-backed securities	-	123,615	257,430	381,045
Commercial mortgage-backed securities	-	123,829	87	123,916
Asset-backed securities	-	210,109	25,240	235,349
Fixed-maturity investments, held as trading	-	879,605	289,904	1,169,509
Investments – available-for-sale				
U.S. Treasury securities and U.S. government agency obligations	$ -	$ 22,980	$ -	$ 22,980
Corporate securities	-	261,402	-	261,402
Municipal bonds	-	-	-	-
Residential mortgage-backed securities	-	-	-	-
Commercial mortgage-backed securities	-	23,637	-	23,637
Asset-backed securities	-	111,553	-	111,553
Fixed-maturity investments, held as available-for-sale	-	419,572	-	419,572
Preferred stock	-	-	-	-
Total assets at fair value	$ -	$ 1,299,177	$ 289,904	$ 1,589,081
Embedded derivative liabilities	-	-	(22,831)	(22,831)
Total liabilities at fair value	$ -	$ -	$ (22,831)	$ (22,831)

4. Fair Value Measurements (continued)

	December 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	$ -	$ 20,619	$ -	$ 20,619
Corporate securities	-	381,371	6,996	388,367
Municipal bonds	-	29,646	-	29,646
Residential mortgage-backed securities	-	130,792	267,849	398,641
Commercial mortgage-backed securities	-	131,737	121	131,858
Asset-backed securities	-	223,731	26,110	249,841
Fixed-maturity investments, held as trading	-	917,896	301,076	1,218,972
Investments – available-for-sale				
U.S. Treasury securities and U.S. government agency obligations	$ 500	$ 21,456	$ -	$ 21,956
Corporate securities	-	198,764	-	198,764
Municipal bonds	-	-	-	-
Residential mortgage-backed securities	-	-	-	-
Commercial mortgage-backed securities	-	21,980	-	21,980
Asset-backed securities	-	95,833	-	95,833
Fixed-maturity investments, held as available-for-sale	500	338,033	-	338,533
Preferred stock	-	-	-	-
Total assets at fair value	$ 500	$ 1,255,929	$ 301,076	$ 1,557,505
Embedded derivative liabilities	-	-	(16,871)	(16,871)
Total liabilities at fair value	$ -	$ -	$ (16,871)	$ (16,871)

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, 2016						
(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, 2016	$ 6,996	$ -	$ 267,849	$ 121	$ 26,110	$ 301,076	$ (16,871)
Total realized and unrealized gains (losses) included on trading securities in net income	195	-	(7,467)	2	170	(7,100)	(5,960)
Total unrealized gains (losses) included on available-for-sale securities in comprehensive net income (loss)	-	-	-	-	-	-	-
Purchases	-	-	-	-	-	-	-
Settlements	(44)	-	(5,220)	(36)	(306)	(5,606)	-
Amortization	-	-	2,268	-	16	2,284	-
Transfers into and/or (out of) Level 3, net	-	-	-	-	(750)	(750)	-
Ending balance as of March 31, 2016	$ 7,147	$ -	$ 257,430	$ 87	$ 25,240	$ 289,904	$ (22,831)

4. Fair Value Measurements (continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the year ended December 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	(505)	-	4,278	(4)	(1,686)	2,083	(3,464)
Total unrealized gains (losses) included on available-for-sale securities in comprehensive net income (loss)	-	-	-	-	-	-	-
Purchases	589	-	-	2,093	2,000	4,682	-
Settlements	(17,879)	-	(17,437)	(2,243)	(13,057)	(50,616)	-
Amortization	137	-	11,433	1	57	11,628	-
Transfers into and/or (out of) Level 3, net	-	(5,838)	-	-	(55)	(5,893)	-
Ending balance as of December 31, 2015	$ 6,996	$ -	$ 267,849	$ 121	$ 26,110	$ 301,076	$ (16,871)

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 and losses for the three month periods ended March 31, 2016 and 2015 that related to Level 3 trading and available-for-sale securities still held at the reporting dates was $4.3 million of net losses and $3.1 million in net gains, 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, 2016 and December 31, 2015, for which we have been able to obtain quantitative information about the significant unobservable inputs used in those fair value measurements:

March 31, 2016

Assets (U.S. dollars in millions)	**Fair Value**	**Valuation Technique**	**Significant Unobservable Inputs**	**Input Ranges**
Corporate securities	$ 2,828	Discounted Cash Flow	Liquidity/duration adjustment*	1.0% - 1.5%
Mortgage and asset-backed securities	$ 10,387	Discounted Cash Flow	Liquidity/duration adjustment*	1.5% - 1.6%

December 31, 2015

Assets (U.S. dollars in millions)	**Fair Value**	**Valuation Technique**	**Significant Unobservable Inputs**	**Input Ranges**
Corporate securities	$ 2,843	Discounted Cash Flow	Liquidity/duration adjustment*	1.0% - 1.5%
Mortgage and asset-backed securities	$ 10,679	Discounted Cash Flow	Liquidity/duration adjustment*	1.5% - 1.6%

* *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.

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, 2015. The following table sets forth the fair values of our financial instruments, as of the dates indicated:

4. Fair Value Measurements (continued)

(U.S. dollars in thousands)	March 31, 2016 Carrying Balance	Level 1	Level 2	Level 3
		Estimated Fair Value		
Assets				
Cash and cash equivalents	$ 139,344	$ 139,344	$ -	$ -
Affiliated investments	42,887	-	-	42,887
Other investments	2,554	-	-	2,554
Funds withheld at interest	376,550	-	-	376,550
Accrued interest receivable	10,149	-	10,149	-
Liabilities				
Interest-sensitive contract liabilities	$ 803,045	$ -	$ -	$ 802,503
Collateral finance facility	450,000	-	-	143,987
Embedded derivative liabilities, at fair value	22,831	-	-	22,831
Long-term debt, at par value	86,500	-	48,599	-

(U.S. dollars in thousands)	December 31, 2015 Carrying Balance	Level 1	Level 2	Level 3
		Estimated Fair Value		
Assets				
Cash and cash equivalents	$ 166,277	$ 166,277	$ -	$ -
Affiliated investments	44,235	-	-	44,235
Other investments	2,744	-	-	2,744
Funds withheld at interest	388,356	-	-	388,356
Accrued interest receivable	9,865	-	9,865	-
Liabilities				
Interest-sensitive contract liabilities	$ 824,796	$ -	$ -	$ 824,228
Collateral finance facility	450,000	-	-	156,978
Embedded derivative liabilities, at fair value	16,871	-	-	16,871
Long-term debt, at par value	86,500	-	54,380	-

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, 2015.

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 providing collateral support to the Company:

5. Collateral Finance Facility and Securitization Structure (continued)

(U.S. dollars in thousands)	**March 31, 2016**	**December 31, 2015**
Assets		
Fixed-maturity investments held as available-for-sale securities, at fair value	$ 9,126	$ 8,435
Funds withheld at interest	367,816	370,696
Cash and cash equivalents	2,544	3,237
Embedded derivative assets	45,056	46,531
All other assets	7,755	1,881
Total assets	$ 432,297	$ 430,780
Liabilities		
Reserves for future policy benefits	$ 135,768	$ 133,042
Collateral finance facility	450,000	450,000
All other liabilities	68,831	65,542
Total liabilities	$ 654,599	$ 648,584

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, 2016**	**December 31, 2015**
Fixed-maturity investments held as available-for-sale securities, at fair value	$ 9,126	$ 8,435
Funds withheld at interest	367,816	370,696
Cash and cash equivalents	2,544	3,237
Embedded derivative assets	45,056	46,531
Total investments	$ 424,542	$ 428,899
Less: Economic reserves	(155,912)	(153,169)
Total investments in consolidated VIE	$ 268,630	$ 275,730

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, 2016, Assured Guaranty (UK) Ltd. ("Assured") has made guarantee payments in the cumulative amount of $21.4 million on the Series A-1 Notes which are the subject of a financial guaranty policy issued by Assured in connection with the 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 $3.3 million as of March 31, 2016. 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, 2016, the interest rate on the Series A-1 Notes was 1.05% (compared to 0.78% as of December 31, 2015). Interest on the Series A-2 Notes, which are not guaranteed as part of the Orkney Re II

5. Collateral Finance Facility and Securitization Structure (continued)

transaction, is payable quarterly at a rate equivalent to three-month LIBOR plus 0.730%. As of March 31, 2016, the interest rate on the Series A-2 Notes was 1.35% (compared to 1.09% as of December 31, 2015). 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, 2015. 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, 2016	4.63%	4.58%	4.53%	4.43%	4.13%
Interest rate as of December 31, 2015	4.61%	4.56%	4.51%	4.41%	4.11%
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, 2016	13	13	13	13	13

** Defined in the notes accompanying SRGL's audited consolidated financial statements for the year ended December 31, 2015.*
***SRGL owns all $20.0 million the Preferred Trust Securities Due 2033 securities.*
****SRGL owns all $10.0 million of the Trust Preferred Securities Due 2033 securities.*
*****SRGL owns $13.0 million of the Trust Preferred Securities Due 2034 securities.*

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, 2016, we had accrued and deferred payments of $18.2 million in interest on the Capital and Trust Preferred Securities. Of these deferred payments, $6.2 million are attributable to SRGL, leaving a net amount of accrued deferred interest of $12.0 million on the Capital and Trust Securities due to external parties. 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.

6. Debt Obligations and Other Funding Arrangements (continued)

For further discussion on the accrued and deferred payment on our Capital and Trust Preferred Securities subsequent to March 31, 2016, 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

On May 7, 2007, we completed the equity investment transaction by the Investors, announced by us on November 27, 2006 (the "2007 New Capital Transaction"). Pursuant to the 2007 New Capital Transaction, the Investors invested an aggregate $600.0 million in the Company in exchange for 1,000,000, in the aggregate, newly-issued Convertible Cumulative Participating Preferred Shares (the "CCPP Shares"). The gross proceeds were $600.0 million less $44.1 million in closing costs, which resulted in aggregate net proceeds of $555.9 million. Each CCPP Share has a par value of $0.01 per share with an initial stated value and liquidation preference of $600 per share, as adjusted for the accretion of dividends or the payment of dividends or distributions as described further below.

The CCPP Shares are convertible at the option of the holder, at any time, into an aggregate of 150,000,000 ordinary shares (the "Ordinary Shares") of SRGL. On the ninth anniversary of issue, May 7, 2016, the CCPP 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 CCPP Shares for cash, except in the event of a liquidation or upon the occurrence of a change-in-control event.

We have accounted for the CCPP Shares in accordance with FASB ASC Subtopic 470-20, Debt – Debt with Conversion and Other Options ("FASB ASC 470-20"). Dividends on the CCPP Shares are cumulative and accrete daily on a non-compounding basis at a rate of 7.25% per annum on the stated value of $600.0 million, whether or not there are profits, surplus, or other funds available for the payment of dividends. Such dividend accretion is reflected solely by increasing the liquidation preference of the CCPP Shares. The liquidation preference of the CCPP shares is equal to their initial stated value, as adjusted for the accretion of dividends and any cash payment or payment in property of dividends or distributions. Redemption of the CCPP Shares is contingent upon a change-in-control. Since neither liquidation nor a change-in-control event is currently probable, the accreted dividends have not been accrued in our consolidated financial statements.

In the event that dividends or distributions are made to ordinary shareholders, the holders of the CCPP Shares will receive a dividend or distribution equal to the dividend or distribution that such holders would have been entitled to receive had the right been exercised to convert all of the CCPP Shares to Ordinary Shares immediately prior to the date of such dividend distribution (i.e., on an as-converted basis).

As of March 31, 2016, the amount of dividends accreted pursuant to the terms of the CCPP Shares, after giving effect a reduction in the liquidation preference of the CCPP Shares resulting from receipt by holders of the CCPP Shares on December 20, 2012 of $75.6 million of accreted cumulative participating dividends on the CCPP Shares, was $312.2 million in the aggregate, or $312.20 per CCPP Share.

The holders of CCPP Shares may, among other things, require us to redeem all or a portion of the CCPP Shares upon a change-in-control event. Upon a change-in-control event, the redemption price of the CCPP Shares is an amount equal to the greater of (i) the stated value of the outstanding CCPP Shares, plus an amount equal to the sum of all accreted dividends through the fifth anniversary of the issue date of the CCPP Shares, or (ii) the amount that the holder of the CCPP Shares would have been entitled to receive with respect to such change-in-control event if it had exercised its right to convert all or such portion of its CCPP Shares for Ordinary Shares immediately prior to the date of such change-in-control event. The liquidation preference of the CCPP Shares (including any adjustments thereto) is not applicable once the CCPP Shares have been converted into Ordinary Shares, as described above.

7. Mezzanine Equity – Convertible Cumulative Participating Preferred Shares (continued)

The CCPP 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 our Board, the terms of which do not expressly provide that such class or series ranks senior to or *pari passu* with the CCPP 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 CCPP 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 CCPP 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.

For further discussion on the CCPP Shares subsequent to March 31, 2016, please refer to Note 11, "Subsequent Events – *Conversion of CCPP Shares*".

8. Shareholders' Deficit

Ordinary Shares

We are authorized to issue 590,000,000 Ordinary Shares with a par value of $0.01 per share.

As of March 31, 2016 and December 31, 2015, we have 68,383,370 Ordinary Shares issued and outstanding, all of which are held directly or indirectly by the Investors.

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, 2016, we have repurchased and cancelled 1,753,224 Perpetual Preferred Shares. As of March 31, 2016 and December 31, 2015, 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, 2016 and 2015 were 6.09% and 6.07%, 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 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

8. Shareholders' Deficit (continued)

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 2015 and 2016 year to date dividend payment dates. 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 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*".

Perpetual Preferred Shares – Right to Appoint Directors

Pursuant to the terms of, and subject to the procedures set forth in, the Certificate of Designations related to the Perpetual Preferred Shares (the "PPS Certificate of Designations"), 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).

On September 18, 2015, the Company received correspondence from a purported beneficial holder of the Perpetual Preferred Shares, seeking to initiate the process for the election of directors by holders of the Perpetual Preferred Shares. Subsequently, we provided to our Transfer Agent and Registrar on October 9, 2015, a notice to holders of the Perpetual Preferred Shares addressing certain procedures related to the election of directors, including a request that holders of the Perpetual Preferred Shares nominate candidates for election to the Board and provide the names and contact information for such nominees. On November 5, 2015, the Company received a letter from Cede & Co., which included a written consent from the beneficial owner who had previously contacted the Company on September 18, 2015, purporting to designate such beneficial owner as a director of the Company. The written consent did not satisfy the requirements of the PPS Certificate of Designations and instead operated as a nomination of such person for potential election by holders of the Perpetual Preferred Shares. The Company notified the director nominee of such circumstances and reiterated a request for certain information regarding the director nominee as set out in the Company's October 9, 2015 notice. The Company provided the director nominee a Director Nominee Questionnaire seeking additional information required for holding an election pursuant to the PPS Certificate of Designations. Upon receipt of a completed Director Nominee Questionnaire, the Company would plan to proceed to convene a special meeting of the holders of Perpetual Preferred Shares to vote on the election of such director nominee. We have received no response to our request for required information from the director nominee. No other nominations were received in response to the Company's October 9, 2015 request.

If and when dividends for at least four dividend periods, whether or not consecutive, following a Non-payment have been paid in full, this right will cease.

9. Income Taxes

The income tax expense or benefit for the three month periods ended March 31, 2016 and 2015 was $0.2 million in income tax expense and $2.5 million in income tax benefit, 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

9. Income Taxes (continued)

Irish entities did not generate a current tax expense due to the operating performance and the availability of tax losses from prior tax years. 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 expense for the three month period ended March 31, 2016 was principally due to an increase of the deferred tax liability for items reversing outside of the 15 year net operating loss carry-forward period in the U.S. The income tax benefit for the three month periods ended March 31, 2015 was principally due to a reduction of the deferred tax liability for items reversing outside of the 15 year net operating loss carry-forward period in the U.S.

As of March 31, 2016, we had total unrecognized tax benefits (excluding interest and penalties) of $1.5 million, the recognition of which is not expected to create a tax 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, 2016 and December 31, 2015.

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.

Effective March 31, 2015, we 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 was appropriate.

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, 2016 and December 31, 2015, our deferred tax liabilities included $26.1 million and $25.9 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.

We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. As of March 31, 2016, 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	2012 through 2015
Non-Life Group	2012 through 2015
Ireland	2011 through 2015

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

9. Income Taxes (continued)

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, 2016, 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.

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, identified in the court documents as 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.

10. Commitments and Contingencies (continued)

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, after which the court would 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 this, Scottish Re and the other Defendant Parties filed opposition briefs, and the plaintiff thereafter filed his reply brief. Oral arguments on the appellate brief were heard by the Appellate Division of the New York Supreme Court on June 9, 2015.

Jurisdictional discovery commenced on the two breach of contract claims concluded on October 26, 2015. Thereafter, the Company filed with the court its renewed Motion to Dismiss in respect of the two remaining claims. Pursuant to the schedule agreed with the court, the plaintiff's brief opposing the Motion to Dismiss was filed with the court on November 25, 2015 and the Company's reply was filed on December 16, 2015. A hearing on the Company's renewed Motion to Dismiss was held with the trial court on January 26, 2016. It is expected that the court will issue a ruling on the Motion to Dismiss during 2016.

On March 10, 2016, the appellate court issued a decision on the plaintiff's appeal argued before it on June 9, 2015, relating to the trial court's previous dismissal of eight of the ten claims originally brought by the plaintiff in this case. The appellate court's majority decision (representing three of the five justices) affirmed the trial court's dismissal of all but two of the claims on appeal against all defendants. With respect to the remaining claims, the appellate court remanded the matter to the trial court to allow the plaintiff to re-plead two breach of fiduciary duty claims against the three Directors of SRGL who remain in the case (the "Director Defendants"). The two dissenting justices would have affirmed the dismissal of all claims on appeal.

Scottish Re has certain obligations to indemnify those Defendant Parties who are current or former directors 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 v. 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 12, 2016.

11. Subsequent Events (continued)

Orkney Re II

On the scheduled interest payment date of May 12, 2016, 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 made guarantee payments on the Series A-1 Notes in the amount of $1.0 million, subject to the financial guaranty policy issued by Assured, as discussed in Note 5, "Collateral Finance Facility and Securitization Structure". 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.

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 12, 2016, we had accrued and deferred payments on a total of $18.5 million of interest on our Capital and Trust Preferred Securities. Of these deferred payments, $6.5 million are attributable to SRGL, leaving a net amount of accrued deferred interest of $12.0 million on the Capital and Trust Securities due to external parties.

Conversion of CCPP Shares

As discussed in Note 7, "Mezzanine Equity - Convertible Cumulative Participating Preferred Shares", the CCPP Shares were convertible at the option of the holder, at any time, into an aggregate of 150,000,000 Ordinary Shares of SRGL. On May 7, 2016, which represented the ninth anniversary of issue, and in accordance with the CCPP Certificate of Designations, the CCPP Shares converted into an aggregate of 150,000,000 Ordinary Shares of the Company.

We accounted for the conversion of the CCPP Shares in accordance with FASB ASC 470-20. As a result, and in accordance with the CCPP Certificate of Designations, the CCPP Shares were converted into an aggregate of 150,000,000 Ordinary Shares, with each Ordinary Share having a par value of $0.01, representing an additional $1.5 million in the Ordinary Shares amount in the Company's Consolidated Balance Sheets. The remaining balance of the CCPP Shares amount of approximately $554.4 million that was previously classified under Mezzanine Equity in the Consolidated Balance Sheets, and was over and above the Ordinary Share conversion amount of $1.5 million as described earlier, was reclassified to Additional Paid-in Capital ("APIC").

The conversion of the CCPP Shares had no impact on the results of operations of the Company and only impacted the Consolidated Balance Sheets.

The table below provides an illustration of the changes to the Company's Consolidated Balance Sheets as follows:

(U.S. dollars in thousands)	May 6, 2016	Adjustment	May 7, 2016
Total Mezzanine Equity			
Total Mezzanine Equity	$ 555,857	$ (555,857)	$ -
Total Mezzanine Equity	$ 555,857	$ (555,857)	$ -
Equity			
Share Capital	$ 684	$ 1,500	$ 2,184
APIC	1,218,190	554,357	1,772,547
Share Capital & APIC	$ 1,218,874	$ 555,857	$ 1,774,731

11. Subsequent Events (continued)

The conversion of the CCPP Shares had no material effect on the operations of the Company.

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, 2016 dividend payment date.

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On April 25, 2016, the plaintiff filed a motion with appellate court, seeking permission to appeal the dismissal of three derivative breach of fiduciary duty claims to the New York Court of Appeals. The Director Defendants who remain in the case and SRGL's shareholders and certain of their affiliates have until May 12, 2016 to file an opposition to plaintiff's motion. The plaintiff has until May 18, 2016 to file a reply brief in further support of his motion.

Notwithstanding the appellate court's March 10, 2016 decision remanding the matter to the trial court to allow the plaintiff to replead only two breach of fiduciary duty claims against the remaining Director Defendants, on May 3, 2016, the plaintiff filed an amended complaint with the trial court in which the plaintiff repleaded eight of the original ten claims, removing two of the original claims and adding a new claim against certain of the Defendant Parties. The Director Defendants have until June 7, 2016 to file a Motion to Dismiss the repleaded breach of fiduciary duty claims. Plaintiff has until July 14, 2016 to file a brief in opposition to any motion to dismiss filed by the Director Defendants. The Director Defendants have until August 5, 2016 to file a reply brief in further support of any motion to dismiss the amended complaint. We anticipate that the deadline governing the Defendant Parties' responses to the amended complaint will also be June 7, 2016.