SCOTTISH RE GROUP LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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Summary of Results

Scottish Re Group Limited ("SRGL", the "Company", "we", "our", and "us") is a holding company incorporated under the laws of the Cayman Islands, and our principal executive office is located in Bermuda.

For the year ended December 31, 2010, SRGL reported net income attributable to ordinary shareholders of $239.1 million, or $1.09 per diluted ordinary share, as compared to net income attributable to ordinary shareholders of $2,305.3 million, or $10.56 per diluted ordinary share, for the prior year.

The $239.1 million of net income attributable to ordinary shareholders in 2010 was primarily driven by $242.2 million of net realized and unrealized gains on the Company's invested assets.

The $2,305.3 million of net income attributable to ordinary shareholders in 2009 was primarily driven by (i) a $1,150.1 million gain on the de-consolidation of a collateral finance facility; (ii) a pre-tax gain of $703.6 million from the sale of a block of life reinsurance business, offset by a $49.8 million income tax expense; (iii) $243.0 million of net realized and unrealized gains on the Company's invested assets; (iv) a gain of $253.8 million from the consolidation of a funding agreement resulting from the Company's 2009 acquisitions of certain of the related pass-through certificates, offset by a loss of $22.1 million resulting from the revaluation of such pass-through certificates held by third parties at December 31, 2009; and (v) a $53.5 million gain on extinguishment of debt.

As of December 31, 2010 and 2009, we had $106.1 million and $138.8 million, respectively, of unrestricted assets in SRGL and Scottish Annuity & Life Insurance Company (Cayman) Ltd. ("SALIC"), a wholly-owned subsidiary of SRGL. The unrestricted assets of SRGL and SALIC represent cash, cash equivalents, and fixed-maturity investments not held in trust accounts. The decrease in the unrestricted assets during 2010 was primarily attributable to the purchase of the remaining pass-through certificates held by third parties, which certificates are described in Note 10 of the accompanying notes to the Consolidated Financial Statements. These unrestricted assets were available to meet the obligations of SRGL and SALIC. There can be no assurances that the amount of unrestricted assets held by SRGL and SALIC will not decrease from period to period.

Report of Independent Auditors

The Board of Directors and Shareholders of Scottish Re Group Limited

We have audited the accompanying consolidated balance sheets of Scottish Re Group Limited and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income (loss), comprehensive income (loss), shareholders' equity (deficit), and cash flows for each of the years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scottish Re Group Limited and subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Scottish Re Group Limited will continue as a going concern. As more fully described in Note 2, the Company is operating the business under an Amended Order of Supervision with the Delaware Department of Insurance. This condition raises substantial doubt about the Company's ability to continue as a going concern. Management's plan in regards to this matter is also described in Note 2. The 2010 consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

Charlotte, North Carolina
April 15, 2011

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

	December 31, 2010	December 31, 2009
ASSETS		
Fixed-maturity investments held as trading securities, at fair value	$ 3,111,724	$ 2,988,164
Preferred stock held as trading securities, at fair value	67,897	77,410
Cash and cash equivalents	417,722	390,025
Other investments	16,459	21,482
Funds withheld at interest	584,617	608,500
Total investments[1]	4,198,419	4,085,581
Accrued interest receivable[2]	22,286	24,422
Reinsurance balances and risk fees receivable	131,315	158,127
Deferred acquisition costs	269,352	296,822
Amount recoverable from reinsurers	564,869	606,347
Present value of in-force business	31,941	38,316
Other assets	22,771	67,185
Current income tax receivable	189	12,762
Deferred tax assets	28	3,922
Total assets	$ 5,241,170	$ 5,293,484
LIABILITIES		
Reserves for future policy benefits	$ 1,477,594	$ 1,566,817
Interest-sensitive contract liabilities	1,415,580	1,518,365
Collateral finance facilities[3]	1,300,000	1,300,000
Accounts payable and other liabilities	54,827	68,921
Embedded derivative liabilities, at fair value	32,545	35,732
Reinsurance balances payable	91,634	109,569
Deferred tax liability	44,189	50,143
Long-term debt, at fair value	-	55,068
Long-term debt, at par value	129,500	129,500
Total liabilities	4,545,869	4,834,115
MEZZANINE EQUITY		
Convertible cumulative participating preferred shares (liquidation preference $759.3 million)	555,857	555,857
SHAREHOLDERS' EQUITY (DEFICIT)		
Ordinary shares, par value $0.01:		
Issued and outstanding - 68,383,370 shares in 2010 and 2009	684	684
Non-cumulative perpetual preferred shares, par value $0.01:		
Issued: 5,000,000 shares (outstanding: 2010 – 4,806,083; 2009 - 5,000,000)	120,152	125,000
Additional paid-in capital	1,217,894	1,217,535
Retained deficit	(1,208,286)	(1,447,375)
Total Scottish Re Group Limited shareholders' equity (deficit)	130,444	(104,156)
Noncontrolling interest	9,000	7,668
Total shareholders' equity (deficit)	139,444	(96,488)
Total liabilities, mezzanine equity, and shareholders' equity (deficit)	$ 5,241,170	$ 5,293,484
[1] Includes total investments of consolidated variable interest entities ("VIEs")	$ 1,108,193	
[2] Includes accrued interest receivable of consolidated VIEs	1,040	
[3] Reflects collateral finance facilities of consolidated VIEs	1,300,000	

See Accompanying Notes to Consolidated Financial Statements

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Expressed in Thousands of United States Dollars, except share data)

	Year Ended		
	December 31, 2010	**December 31, 2009**	**December 31, 2008**
Revenues			
Premiums earned, net	$ 421,134	$ 451,800	$ 1,651,106
Fee and other income	5,453	6,996	8,803
Investment income, net	170,454	176,923	377,304
Net realized and unrealized gains (losses)	242,246	242,990	(1,895,895)
Gain on de-consolidation of collateral finance facility	-	1,150,114	-
Gain on consolidation of funding arrangement	-	253,824	-
Change in value of long-term debt, at fair value	(15,246)	(22,125)	-
Gain on extinguishment of debt	-	53,545	19,437
Change in value of embedded derivative liabilities	3,187	311,787	(216,041)
Total revenues	827,228	2,625,854	(55,286)
Benefits and expenses			
Claims, policy benefits, and changes in policyholder reserves, net	394,618	(22,926)	1,579,412
Interest credited to interest-sensitive contract liabilities	52,346	59,959	75,581
Amortization of deferred acquisition costs and other insurance expenses, net	88,660	133,782	559,933
Operating expenses	54,581	53,781	137,981
Collateral finance facilities expense	33,061	39,410	257,912
Interest expense	5,360	6,274	9,902
Total benefits and expenses	628,626	270,280	2,620,721
Income (loss) from continuing operations before income taxes	198,602	2,355,574	(2,676,007)
Income tax benefit (expense)	37,941	(49,531)	6,836
Income (loss) from continuing operations	236,543	2,306,043	(2,669,171)
Loss from discontinued operations, net of related taxes	-	-	(43,001)
Consolidated income (loss)	236,543	2,306,043	(2,712,172)
Gain on redemption of non-cumulative perpetual preferred shares	3,878	-	-
Net (income) loss attributable to noncontrolling interest	(1,332)	(702)	1,855
Net income (loss) attributable to ordinary shareholders	$ 239,089	$ 2,305,341	$ (2,710,317)
Income (loss) per ordinary share attributable to ordinary shareholders:			
Basic income (loss) per ordinary share			
Income (loss) from continuing operations	$ 3.45	$ 33.23	$ (39.00)
Loss from discontinued operations	-	-	(0.63)
Net income (loss) attributable to ordinary shareholders	$ 3.45	$ 33.23	$ (39.63)

Diluted income (loss) per ordinary share			
Income (loss) from continuing operations	$ 1.09	$ 10.56	$ (39.00)
Loss from discontinued operations	-	-	(0.63)
Net income (loss) attributable to ordinary shareholders	$ 1.09	$ 10.56	$ (39.63)
Weighted average number of ordinary shares outstanding – basic	68,383,370	68,383,370	68,383,370
Weighted average number of ordinary shares outstanding – diluted	218,383,370	218,383,370	68,383,370

See Accompanying Notes to Consolidated Financial Statements

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

	Year Ended		
	December 31, 2010	**December 31, 2009**	**December 31, 2008**
Net income (loss) attributable to ordinary shareholders	$ 239,089	$ 2,305,341	$ (2,710,317)
Other comprehensive income (loss):			
Change in net unrealized (depreciation) appreciation on investments and other balances:			
Fixed-maturity investments	-	-	(38,392)
Preferred stock	-	-	(59)
Change in deferred acquisition costs	-	-	5,442
Change in deferred income taxes	-	-	6,495
Change in net unrealized (depreciation) on investments and other balances	-	-	(26,514)
Cumulative translation adjustment	-	-	(24,590)
Change in benefit plans	-	-	2,344
Other comprehensive loss	-	-	(48,760)
Comprehensive income (loss)	239,089	2,305,341	(2,759,077)
Change in net unrealized appreciation attributable to noncontrolling interest	-	-	204
Comprehensive income (loss) attributable to ordinary shareholders	$ 239,089	$ 2,305,341	$ (2,758,873)

See Accompanying Notes to Consolidated Financial Statements

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

	Year Ended		
	December 31, 2010	**December 31, 2009**	**December 31, 2008**
Share capital:			
Ordinary shares:			
Beginning and end of period	$ 684	$ 684	$ 684
Non-cumulative perpetual preferred shares:			
Beginning of period	125,000	125,000	125,000
Non-cumulative perpetual preferred shares redeemed	(4,848)	-	-
End of period	120,152	125,000	125,000
Additional paid-in capital:			
Beginning of period	1,217,535	1,216,878	1,214,886
Option and restricted stock unit expense	359	657	1,992
End of period	1,217,894	1,217,535	1,216,878
Accumulated other comprehensive income (loss):			
Unrealized appreciation (depreciation) on investments net of income taxes and deferred acquisition costs			
Beginning of period	-	-	26,514
Change in period	-	-	(26,514)
End of period	-	-	-
Noncontrolling interest			
Beginning of period	-	-	(204)
Change in period (net of tax)	-	-	204
End of period	-	-	-
Cumulative translation adjustment			
Beginning of period	-	-	24,590
Change in period (net of tax)	-	-	(24,590)
End of period	-	-	-
Change in benefit plans			
Beginning of period	-	-	(2,344)
Change in period (net of tax)	-	-	2,344
End of period	-	-	-
Total accumulated other comprehensive income (loss)	-	-	-
Retained (deficit):			
Beginning of period	(1,447,375)	(3,752,716)	(1,042,399)
Net income (loss) attributable to ordinary shareholders	239,089	2,305,341	(2,710,317)
End of period	(1,208,286)	(1,447,375)	(3,752,716)
Total Scottish Re Group Limited shareholders' equity (deficit)	$ 130,444	$ (104,156)	$ (2,410,154)
Noncontrolling interest:			
Beginning of period	7,668	6,966	9,025
Net income (loss)	1,332	702	(1,855)
Unrealized (depreciation) appreciation - change in period (net of tax)	-	-	(204)
End of period	9,000	7,668	6,966
Total shareholders' equity (deficit)	$ 139,444	$ (96,488)	$ (2,403,188)

See Accompanying Notes to Consolidated Financial Statements

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

	Year Ended		
	December 31, 2010	December 31, 2009	December 31, 2008
Operating activities			
Consolidated income (loss)	$ 236,543	$ 2,306,043	$ (2,712,172)
Adjustments to reconcile net income (loss) to net cash used by operating activities:			
Net realized and unrealized (gains) losses	(242,246)	(242,990)	1,894,033
Gain on de-consolidation of collateral finance facility	-	(1,150,114)	-
Change in value of long-term debt, at fair value	15,246	22,125	-
Gain on consolidation of funding arrangement	-	(253,824)	-
Gain on extinguishment of debt	-	(53,545)	(19,437)
Change in value of embedded derivative liabilities	(3,187)	(311,787)	216,041
Amortization of discount on fixed-maturity investments and preferred stock	-	-	281
Amortization of deferred acquisition costs	31,141	79,848	209,577
Amortization of present value of in-force business	6,375	1,789	5,455
Write-off of fixed assets associated with the sale of the Acquired Business	-	6,021	-
Amortization of deferred transaction costs	5,081	2,646	49,170
Depreciation of fixed assets	415	1,126	7,989
Option and restricted stock unit expense	359	657	1,992
Changes in assets and liabilities:			
Funds withheld at interest	23,883	1,140,268	(151,432)
Accrued interest receivable	2,136	4,665	22,335
Reinsurance balances and risk fees receivable	26,812	244,592	132,221
Deferred acquisition costs	(3,671)	(1,906)	41,155
Other assets	49,829	(243,111)	18,944
Current income tax receivable and payable	12,573	(3,951)	2,258
Deferred tax asset and liabilities	(2,060)	49,060	10,478
Reserves for future policy benefits, net of amounts recoverable from reinsurers	(47,745)	(2,097,667)	(209,291)
Interest-sensitive contract liabilities	(2,092)	(13,813)	(41,504)
Accounts payable and other liabilities	(14,094)	(6,280)	(41,595)
Reinsurance balances payable	(17,935)	(129,994)	64,396
Net cash provided by (used in) operating activities	77,363	(650,142)	(499,106)
Investing activities			
Purchase of fixed-maturity investments	(849,344)	(778,910)	(316,809)
Proceeds from sales and maturities of fixed-maturity investments	886,205	1,102,202	2,251,386
Purchases of preferred stock	(1,865)	(80)	(2,285)
Proceeds from sales and maturities of preferred stock	15,823	12,438	3,167
Purchase of and proceeds from other investments, net	1,354	299	36,401
Proceeds from sale of fixed assets, net	-	64	4,117
Net cash provided by investing activities	52,172	336,013	1,975,977
Financing activities			
Deposits to interest-sensitive contract liabilities	-	-	1,033
Withdrawals from interest-sensitive contract liabilities	(100,868)	(73,845)	(837,934)
Payments on collateral finance facilities	-	-	(960,942)
Proceeds from drawdown of funding arrangement	-	-	325,000
Dividends paid on non-cumulative perpetual preferred shares	-	-	(2,266)
Extinguishment of debt	-	(46,614)	-
Redemption on non-cumulative perpetual preferred shares	(970)	-	-
Net cash used in provided by financing activities	(101,838)	(120,459)	(1,475,109)
Net change in cash and cash equivalents	27,697	(434,588)	1,762
Cash and cash equivalents, beginning of period	390,025	824,613	822,851
Cash and cash equivalents, end of period	$ 417,722	$ 390,025	$ 824,613
Interest paid	$ 4,349	$ 1,761	$ 28,350
Taxes (refunded)	$ (12,716)	$ (3,397)	$ (4,815)

See Accompanying Notes to Consolidated Financial Statements

SCOTTISH RE GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

1. Organization and Business

Organization

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

Bermuda
Scottish Re Life (Bermuda) Limited ("SRLB")

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

Ireland
Scottish Re (Dublin) Limited ("SRD")
Orkney Re II plc ("Orkney Re II")

United States
Scottish Holdings, Inc. ("SHI")
Scottish Re (U.S.), Inc. ("SRUS")
Scottish Re Life Corporation ("SRLC")
Orkney Holdings, LLC ("OHL")
Orkney Re, Inc. ("Orkney Re" and, together with OHL, "Orkney I")

Run Off Strategy

In 2008, we ceased writing new business and notified our existing clients that we would not be accepting any new reinsurance risks under existing reinsurance treaties, thereby placing our remaining treaties into run-off. We expect to continue to pursue a run-off strategy for the remaining business, whereby we continue to receive premiums, pay claims, and perform key activities under our remaining reinsurance treaties; however, no assurances can be given that we will be successful in executing this strategy.

While pursuing our run-off strategy, we may, if opportunities arise, purchase in privately-negotiated transactions, open market purchases, or by means of general solicitations, tender offers, or otherwise, additional amounts of 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 discussion on our outstanding securities, see Note 10, "Debt Obligations and Other Funding Arrangements". Further, the Company has engaged a financial advisor as we continue to explore ways to increase enterprise value, including consideration from time to time of transactions for the sale or disposition of our businesses or assets, which transactions, individually or in the aggregate, may be material. Refer to Note 23, "Subsequent Events" for information regarding an Orkney I Unwind Transaction.

Regulatory Considerations

We have been operating since 2009 with certain regulatory constraints with respect to SRUS, our primary U.S. reinsurance subsidiary. In connection with the receipt by SRUS in late 2008 of a permitted statutory accounting practice related to the reduction from liability for reinsurance ceded to an unauthorized assuming insurer (the

1. Organization and Business (continued)

"Permitted Practice"), SRUS consented to the issuance by the Delaware Department of Insurance (the "Department") on January 5, 2009, of an Order of Supervision for SRUS (the "Order of Supervision"), in accordance with 18 Del. C. §5942. The Order of Supervision required, among other things, the Department's consent to any transaction by SRUS outside the ordinary course of business and to any transaction with or any distribution or payment to its affiliates. The original Order of Supervision subsequently was amended and replaced with an Extended and Amended Order of Supervision, dated April 3, 2009 (the "Amended Order"), which amended and clarified certain matters contained within the original Order of Supervision.

In connection with the Amended Order, SRUS generally must receive prior written consent from the Department in order to engage in any transaction outside of the ordinary course of business; make certain payments, or incur certain debts, obligations, or liabilities in any transaction of $1 million or greater (provided that this limitation does not apply to the payment of claims, premiums, and other third party reinsurance settlements, in each case of less than $10 million per payment); engage in new business; lend any of its funds; invest any of its funds in a manner that deviates from the plan filed with the Department; commute, novate, amend, or otherwise change any existing reinsurance contract or treaty; or engage in any transaction with any related party. By its terms, the Amended Order is to remain in place until such time as SRUS can make certain enumerated showings to the Department related to its financial strength and results of operations.

Refer to Note 23, "Subsequent Events", for additional details on the status of the Permitted Practice and the Amended Order.

Business

We have written reinsurance business that is wholly or partially retained in one or more of our reinsurance subsidiaries. With the sale of our Wealth Management business and Life Reinsurance International Segment in 2008, see Note 22, "Discontinued Operations", and the subsequent sale of a block of individual life reinsurance business in our Life Reinsurance North America Segment (the "Acquired Business", as more fully defined in Note 13, "Reinsurance-*Sale of a Block of Life Reinsurance North America Business*") during the first quarter of 2009, operating decisions and performance assessments of the Company are now performed without reference to any separate segments. Accordingly, we do not present information about distinct operating segments for periods after January 1, 2009.

We have assumed risks associated with primary life insurance, annuities, and annuity-type policies. We reinsure mortality, investment, persistency, and expense risks of life insurance and reinsurance companies based in the United States. Most of the reinsurance was assumed through automatic treaties, but we also assumed certain risks on a facultative basis. The business we historically have written falls into two categories: Traditional Solutions and Financial Solutions, as detailed below.

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

Financial Solutions: Financial Solutions include contracts under which we assumed the investment and persistency risks of existing, as well as newly written, blocks of business. The products reinsured include annuities and annuity-type products, cash value life insurance, and, to a lesser extent, disability products that are in a pay-out phase.

1. Organization and Business (continued)

The following table summarizes the net premiums earned by product category for the years ended December 31, 2010, 2009 and 2008.

(U.S. dollars in millions)	Traditional Solutions	Financial Solutions	Total
Year Ended December 31, 2010	$ 415.9	$ 5.2	$ 421.1
Year Ended December 31, 2009	$ 445.0	$ 6.8	$ 451.8
Year Ended December 31, 2008	$ 1,626.0	$ 25.1	$ 1,651.1

For further details on revenue recognition associated with the amounts shown in the table above, please refer to Note 2, "Summary of Significant Accounting Policies-*Revenue Recognition*".

Life insurance products that we reinsure include yearly renewable term, term with multi-year guarantees, ordinary life, and variable life. Retail annuity products that we reinsure include fixed deferred annuities and variable annuities. For these products, we wrote reinsurance generally in the form of yearly renewable term, coinsurance, or modified coinsurance. Under yearly renewable term, we share only in the mortality risk for which we receive a premium. In a coinsurance or modified coinsurance arrangement, we generally share proportionately in all material risks inherent in the underlying policies, including mortality, lapses, and investment experience. Under such agreements, we agree to indemnify the primary insurer for all or a portion of the risks associated with the underlying insurance policy or annuity contract in exchange for a proportionate share of premiums. Coinsurance differs from modified coinsurance with respect to the ownership of the assets supporting the reserves. Under our coinsurance arrangements, ownership of these assets is transferred to us, whereas, in modified coinsurance arrangements, the ceding company retains ownership of these assets, but we share in the investment income and risk associated with the assets.

2. Summary of Significant Accounting Policies

Basis of Presentation

Accounting Principles - Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Consolidation - The consolidated financial statements include the assets, liabilities, and results of operations of SRGL, its subsidiaries, and all variable interest entities for which we are the primary beneficiary, as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810-10, Consolidation – Overall ("FASB ASC 810-10"). All significant inter-company transactions and balances have been eliminated in consolidation. We consolidate two non-recourse securitizations: Orkney I, a Delaware limited liability company, and Orkney Re II, a special purpose vehicle incorporated under the laws of Ireland. Refer to Note 23, "Subsequent Events" for information regarding an Orkney I Unwind Transaction. Effective January 1, 2009, we no longer consolidate Ballantyne Re plc ("Ballantyne Re"). For further discussion of Orkney I, Orkney Re II, and Ballantyne Re, see Note 9, "Collateral Finance Facilities and Securitization Structures". Effective October 8, 2009, we consolidated the Stingray Pass-Through Trust and the Stingray Investor Trust (together "Stingray"). For further discussion of these entities, see Note 10, "Debt Obligations and Other Funding Arrangements".

Comprehensive Income – Components of other comprehensive income in 2008, other than the net loss for the year, included unrealized gains and losses, cumulative translation adjustments and changes in benefit plans. There were no items of other comprehensive income in 2010 and 2009, and, therefore, the net income attributable to ordinary shareholders is the same as comprehensive income attributable to ordinary shareholders for 2010 and 2009.

2. Summary of Significant Accounting Policies (continued)

Noncontrolling Interest– The noncontrolling interest represents the 5% of SRLC that is not owned by SRGL. The consolidated financial statements include all assets, liabilities, revenues, and expenses of SRLC. In accordance with FASB ASC Topic 810, references in these consolidated financial statements to net income (loss) attributable to SRGL, net income (loss) attributable to ordinary shareholders, and shareholders' equity (deficit) attributable to SRGL do not include the noncontrolling interest, which is reported separately.

Going Concern - These consolidated financial statements have been prepared using accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. Our ability to continue as a going concern is dependent upon our ability to comply with the Department's Amended Order for SRUS. We intend to operate SRUS in a manner that strengthens its statutory capital and surplus and facilitates the removal of the Amended Order. Refer to Note 23, "Subsequent Events", for additional details on the status of the Permitted Practice and the Amended Order.

In the event that for any reason, we fail to comply with the Department's Amended Order, or in the event the financial condition of SRUS were to materially deteriorate, the Department may take action to seize control of SRUS under applicable insurance law. Such a seizure would place control of all management decisions of SRUS with the Department, including with respect to controlling cash flows, settling claims, and paying obligations. The primary objective of the Department would be to protect the interests of the ceding insurers (and their policyholders) with whom SRUS has contracted and would not be to protect the interests of SRGL or any of our subsidiaries, the shareholders, or any other stakeholders of the Company. A seizure of SRUS would have numerous consequences and could lead to the need for SRGL and certain of its subsidiaries to seek bankruptcy protection.

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

- investment valuations;
- accounting for 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;
- deferral and amortization of deferred acquisition costs;
- retrocession arrangements and amounts recoverable from reinsurers;
- interest-sensitive contract liabilities;
- long-term debt at fair value; and
- income taxes, deferred taxes, and 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.

Discontinued Operations - In accordance with FASB ASC Topic 360, Property, Plant and Equipment ("FASB ASC 360"), certain items in the Consolidated Statements of Income (Loss) for the year ended December 31, 2008, and the assets and liabilities in the Consolidated Balance Sheets at December 31, 2008 have been restated to exclude the results of our discontinued operations. See Note 22, "Discontinued Operations". As permitted by FASB ASC 360, the Consolidated Statements of Comprehensive Income, Consolidated Statements of Shareholders' Equity (Deficit), and Consolidated Statements of Cash Flows for the year ended December 31, 2008 remain unchanged.

Reclassifications – Certain prior period amounts in our consolidated financial statements and accompanying

2. Summary of Significant Accounting Policies (continued)

notes, primarily associated with reinsurance balances payable and receivable, have been reclassified to conform to the current presentation.

Assessment of Risk Transfer

For both ceded and assumed reinsurance, risk transfer requirements must be met in order to obtain reinsurance status for accounting purposes, principally resulting in the recognition of cash flows under the contract as premiums and expenses. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. To assess risk transfer for certain contracts, we generally develop expected discounted cash flow analyses at contract inception to determine if the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. We review all contractual features, particularly those that may limit the amount of insurance risk to which we are subject or features that delay the timely reimbursement of claims. If we determine that risk transfer requirements on a contract are not met, a contract is accounted for using the deposit method.

Revenue Recognition

Net earned premiums are recorded net of amounts retroceded and are matched with their respective benefits and expenses so as to result in the recognition of profits over the life of the contracts. The following is a summary of our revenue recognition policies:

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

(ii) Reinsurance assumed for interest-sensitive and investment type products is accounted for under the deposit method and does not generate premiums. For this business, we recognize as fee and other income the investment income on the assets that we receive from ceding companies, net of policy charges for the cost of insurance, policy administration, and surrenders that have been assessed against policy account balances during the period. Fee income is recorded on an accrual basis.

(iii) Net investment income includes interest and dividend income and is net of investment management and custody fees.

Investments

Effective January 1, 2008, we reclassified our “available for sale” securities to “trading”. Accordingly, as of January 1, 2008, the balance of unrealized appreciation on investments of $38.5 million, which was previously included in accumulated other comprehensive income (loss), was reclassified and recorded in the Consolidated Statements of Income (Loss) caption “Net realized and unrealized gains (losses)” for the year ended December 31, 2008.

We carry our investments at fair value, as described in Note 5, “Fair Value Measurements”, and unrealized gains and losses on investments are included in earnings. Realized gains and losses arising from the sale of investments are determined on a specific identification method and investment transactions are recorded on the trade date. Interest income is recorded on the accrual basis, based on the securities’ stated coupon rates, as a component of net investment income. In 2009 and 2008, the coupon payments received on certain securities which had

2. Summary of Significant Accounting Policies (continued)

sustained significant declines in their fair values and which had uncertain cash flows were applied as principal reductions. Cash flows for investment transactions are classified in Investing Activities in the Consolidated Statements of Cash Flows, even though our investments are classified as trading securities, because the investment transactions are not part of our primary Operating Activities.

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

Other investments include equity securities, which are carried at fair value, and policy loans, which are carried at the outstanding loan balances.

Funds withheld at interest are funds held by ceding companies under modified coinsurance and funds withheld coinsurance agreements whereby the assets supporting the statutory reserves of the ceding companies are retained by the ceding companies and managed for our account, and we receive the interest income earned on the funds. The funds withheld at interest are equal to the net statutory reserve fund balances retained by the ceding company, and the amounts in the funding accounts are adjusted quarterly to equal the ceding companies' net statutory reserve balances. In the event of an insolvency of a ceding company, we would make a claim on the assets supporting the contract liabilities**;** however, the risk of loss is mitigated by our ability to offset amounts owed to the ceding company with the amounts owed to us by the ceding company. Interest accrues on these assets at rates defined by the treaty terms. The underlying agreements are considered to include embedded derivative liabilities, as further discussed in this Note. We included the change in funds withheld at interest as well as the change in the fair value of embedded derivative liabilities in Operating Activities in the Consolidated Statements of Cash Flows. In addition to our modified coinsurance and funds withheld coinsurance agreements, we have entered into various reinsurance treaties that, although considered funds withheld, do not transfer significant insurance risk and are accounted for using the deposit method.

Deferred Acquisition Costs

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

DAC related to traditional life insurance contracts that we reinsure, substantially all of which relate to long-duration contracts, are amortized in proportion to the ratio of individual period premium revenues to total anticipated premium revenues over the lives of the policies. Such anticipated premium revenues are estimated using the same assumptions used for computing reserves for future policy benefits.

DAC related to interest-sensitive life and investment-type policies that we reinsure is deferred and amortized over the lives of the policies in relation to the present value of estimated gross profits from mortality and investment income, less interest credited and expense margins, without provision for adverse deviation. We update the estimated gross profits with the actual gross profits for each block of business for that reporting period. When newly-estimated gross profits change from previously-estimated gross profits, which could result from changes in the future estimates for mortality, persistency, maintenance expense, and interest, the cumulative DAC amortization is recalculated and adjusted by a cumulative charge or credit to current operations. When actual gross profits exceed those previously estimated, the DAC amortization will increase, resulting in a current period charge to earnings. The opposite result occurs when the actual gross profits are below the previously-estimated gross profits. In circumstances where calculated gross profits are negative, which can occur when asset market values are declining, we would set the actual gross profits at zero in these calculations. In addition, we periodically review the future

2. Summary of Significant Accounting Policies (continued)

estimated gross profit for each block of business to determine the recoverability of DAC balances based on future expectations.

The total DAC amortization expense recognized during a particular period may increase or decrease, depending upon the relative size of any amortization changes that may result from the update of actual gross profits and the re-estimation of expected future gross profits. Any significant modifications or exchanges of contracts that are considered to constitute a substantial contract change are accounted for as an extinguishment of the replaced contract, resulting in a release of any unamortized DAC. Additionally, any unearned revenue or deferred sales inducements associated with the replaced contract would also be released. Where business is terminated due to recapture or novation, the related DAC is fully amortized.

Amounts Recoverable from Reinsurers

In the ordinary course of business, our reinsurance subsidiaries cede reinsurance to other reinsurance companies. These agreements minimize our net loss potential arising from large risks. In the normal course of business, we seek to limit our exposure to losses on any single insured life. Our initial retention limit was set at $500,000 per life, but, for certain blocks of business, can be up to $2,000,000 per life. Ceded reinsurance contracts, however, do not relieve us of our obligation to the direct writing companies. The cost of reinsurance related to long duration contracts is recognized over the terms of the reinsured policies on a basis consistent with the accounting for those policies.

Amounts recoverable from reinsurers includes the balances due from reinsurance companies for claims and policy benefits that will be recovered from reinsurers, based on contracts in-force, and are presented net of a reserve for uncollectible reinsurance that has been determined based upon a review of the financial condition of the reinsurers and other factors. The method for determining the reinsurance recoverable involves actuarial estimates as well as a determination of our ability to cede claims and policy benefits under our existing reinsurance contracts. The reserve for uncollectible reinsurance is based on an estimate of the amount of the reinsurance recoverable balance that we will ultimately be unable to recover due to reinsurer insolvency, a contractual dispute, or any other reason. At December 31, 2010 and 2009, we had a reserve for uncollectible reinsurance of $1.2 million and $5.0 million, respectively.

Present Value of In-force Business

The present value of in-force business is established upon the acquisition of a book of business and is amortized over the expected life of the business, as determined at acquisition. The amortization each year is a function of the ratio of annual gross profits (or revenues) to total anticipated gross profits (or total anticipated revenues) expected over the life of the business, discounted at the assumed net credit rate (4.9% for 2010, 2009, and 2008, respectively). The carrying value of the present value of in-force business is reviewed at least annually for indicators of impairment in value.

2. Summary of Significant Accounting Policies (continued)

Other Assets

Other assets consist of the following:

(U.S. dollars in thousands)	December 31, 2010	December 31, 2009
Unamortized collateral finance facility and debt issuance costs	$ 16,761.2	$ 21,842.2
Interest rate swap	-	25,924.4
Prepaid expenses	5,023.0	18,067.1
Fixed assets	871.5	1,286.2
Other	115.7	65.5
Total	$ 22,771.4	$ 67,185.4

During 2010, 2009, and 2008, we amortized collateral finance facility and debt issuance costs of $2.3 million, $2.6 million, and $6.8 million, respectively. In 2010, we terminated the interest rate swap following further purchases of the Pass-Through Certificates, and, in addition, we wrote off unamortized debt issuance costs of $2.8 million relating to the cancellation of a funding agreement. Both the Pass-Through Certificates and the funding agreement are defined in Note 10, "Debt Obligations and Other Funding Arrangements- *Stingray Investor Trust and Stingray Pass-Through Trust (together "Stingray")"*. Debt issuance costs relating to our long-term debt were fully amortized in 2009. In 2008, we wrote off $41.0 million relating to collateral finance facilities and securitization structures, as defined in Note 9, "Collateral Finance Facilities and Securitization Structures".

Reserves for Future Policy Benefits

FASB ASC Topic 944, Financial Services – Insurance ("FASB ASC 944"), applies to the traditional life policies with continuing premiums that we reinsure. For these policies, reserves for future policy benefits are computed based upon expected mortality rates, lapse rates, investment yields, expenses, and other assumptions established at policy issue, including a margin for adverse deviation. Once these assumptions are made, they generally will not be changed over the life of the policies. We periodically review actual historical experience and future projections compared to the original assumptions used to establish reserves for future policy benefits. Further, we determine whether actual experience and future projections indicate that existing policy reserves, together with the present value of future gross premiums, are sufficient to cover the present value of future benefits, settlement, and maintenance costs, and to recover unamortized deferred acquisition costs. Significant changes in experience or assumptions may require us to provide for expected losses by establishing additional net reserves.

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

Because of the many assumptions and estimates used in establishing reserves for future policy benefits and the long-term nature of the reinsurance contracts, the reserving process, while based on actuarial science, is inherently uncertain.

Interest-sensitive Contract Liabilities

FASB ASC 944 also applies to investment contracts, limited premium contracts, and universal life-type contracts. The liabilities for interest-sensitive contract liabilities are equal to the accumulated account values of the

2. Summary of Significant Accounting Policies (continued)

policies or contracts as of the valuation date. Benefit liabilities for fixed annuities during the accumulation period equal their account values; after annuitization, they equal the discounted present value of expected future payments.

Should the liabilities for future policy benefits plus the present value of expected future gross premiums be insufficient to provide for the expected future benefits and expenses, any unamortized DAC will be written off, and, thereafter, if required, a premium deficiency reserve will be established by a current period charge to earnings.

Derivatives

All derivative instruments are recognized either as assets or liabilities in the Consolidated Balance Sheets at fair value as required by FASB ASC Topic 815, Derivatives and Hedging ("FASB ASC 815"). The accounting for changes in the fair value of the interest rate swap included in Other Assets on the Consolidated Balance Sheets are included in net realized and unrealized gains (losses) in the Consolidated Statements of Income (Loss).

Our embedded derivative liabilities, at fair value, are associated with funds withheld at interest, which arise on modified coinsurance and funds withheld coinsurance agreements. FASB ASC Section 815-15-55, Derivatives and Hedging – Embedded Derivatives – Implementation Guidelines and Illustrations ("FASB ASC 815-15-55"), which incorporates Derivatives Implementation Group Issue No. B36 "Embedded Derivatives: Bifurcation of a Debt Instrument that Incorporates Both Interest Rate and Credit Rate Risk Exposures that are Unrelated or Only Partially Related to the Creditworthiness of the Issuer of that Instrument", indicates that these transactions contain embedded derivatives. The embedded derivative feature in our funds withheld treaties is similar to a fixed-rate total return swap on the assets held by the ceding companies. During the year ended December 31, 2008, we reinsured and recaptured equity-indexed annuity reinsurance contracts, with account values credited with a return indexed to an equity index rather than established interest rates. Under FASB ASC 815-15-55, which incorporates Derivatives Implementation Group Issue No. B10 "Embedded Derivatives: Equity-Indexed Life Insurance Contracts", these transactions contained embedded derivatives. Upon recapture, we eliminated the associated embedded derivative balance of $81.4 million, resulting in a pre-tax gain of $35.2 million.

The sale of a block of individual life reinsurance business in our Life Reinsurance North America Segment (the "Acquired Business", as more fully defined in Note 13, "Reinsurance-*Sale of a Block of Life Reinsurance North America Business*") during the first quarter of 2009 resulted in the elimination of the associated embedded derivative of $275.5 million.

The change in the fair value of embedded derivative liabilities is reported in the Consolidated Statements of Income (Loss) under the caption "Change in value of embedded derivative liabilities".

Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of the following:

(U.S. dollars in thousands)	**December 31, 2010**	**December 31, 2009**
Accounts payable	$ 10,271.7	$ 7,542.1
Deferred financial guarantor fees	6,974.1	2,955.7
Uncertain income tax liabilities	12,764.8	43,901.2
Deferred interest on long-term debt	11,390.0	6,029.6
Collateral finance facility accrued interest	13,426.8	8,492.7
Total	$ 54,827.4	$ 68,921.3

2. Summary of Significant Accounting Policies (continued)

Income Taxes

Income taxes are recorded in accordance with FASB ASC Topic 740, Income Taxes ("FASB ASC 740"). For all years presented, we use the asset and liability method to record deferred income taxes. Accordingly, deferred income tax assets and liabilities are recognized that reflect the net tax effect, using enacted tax rates, of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for income tax purposes. Such temporary differences are primarily due to the tax basis of reserves, DAC, unrealized investment losses, and net operating loss carry forwards. A valuation allowance is applied to deferred tax assets if it is more likely than not that all, or some portion, of the benefits related to the deferred tax assets will not be realized.

Earnings per Ordinary Share

In accordance with FASB ASC Topic 260, Earnings per Share ("FASB ASC 260"), basic earnings per share is computed based on the weighted average number of ordinary shares outstanding and assumes an allocation of net income (loss) to the Convertible Cumulative Participating Preferred Shares for the period (or the portion of the period) that these securities were outstanding. Losses are not allocated to Convertible Cumulative Participating Preferred Shares.

Under the provisions of FASB ASC 260, basic income (loss) per share are computed by dividing the net income (loss) attributable to ordinary shareholders by the weighted average number of shares of our ordinary shares outstanding for the period. Diluted earnings per share is calculated based on the weighted average number of shares of ordinary shares outstanding plus the dilutive effect of potential ordinary shares, in accordance with the if-converted method. In accordance with FASB ASC 260, the exercise of options and warrants or conversion of convertible securities is not assumed unless it would reduce earnings per share or increase loss per share. See Note 16, "Earnings per Ordinary Share".

3. Recent Accounting Pronouncements

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

In December 2009, the FASB issued Accounting Standards Update No. 2009-17, Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities ("ASU No. 2009-17"). ASU No. 2009-17 replaces the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and the obligation to absorb losses of, and the right to receive benefits from, the entity. This update also requires additional disclosures about a reporting entity's involvement in variable interest entities which will enhance the information provided to users of financial statements. ASU No. 2009-17 is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The adoption of this update had no effect on our financial position or results of operations.

FASB ASC Topic 810, Consolidation

In June 2009, the FASB issued an update to FASB ASC Topic 810. This update requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or variable interests give it a controlling financial interest in a VIE. This update also requires ongoing reassessments of whether an enterprise is the primary

3. Recent Accounting Pronouncements (continued)

beneficiary of a VIE and is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application was prohibited. We adopted this update effective January 1, 2010. The adoption of this update resulted in additional disclosures but had no effect on our financial position or results of operations. As a result of adopting this update, we now separately disclose on the Consolidated Balance Sheet, the assets of the consolidated VIE that can only be used to settle obligations of the VIE and the liabilities of the consolidated VIE for which creditors have no recourse on the general accounts of SRGL's insurance subsidiaries.

FASB ASC Topic 820, Fair Value Measurements and Disclosure

In January 2010, the FASB issued an update to require a number of additional disclosures regarding fair value measurements. Specifically, the update requires a reporting entity to disclose the amounts of significant transfers between Level 1 and Level 2 of the three tier fair value hierarchy and the reasons for these transfers, as well as the reasons for any transfers in or out of Level 3, effective for annual and interim periods beginning after December 15, 2009. The update also requires information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances, and settlements on a gross basis, effective for annual and interim periods beginning after December 15, 2010. We adopted the requirements of this update that were effective for the year ended December 31, 2010. The adoption of this update had no effect on our financial position or results of operations in 2010, and we do not expect the adoption of the remaining requirements of the update to be significant in 2011.

Accounting Standards Update No. 2010-26, Financial Services – Insurance (Topic 944) – Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued Accounting Standards Update No. 2010-26, Financial Services - Insurance (Topic 944) – Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ("ASU No. 2010-26") "), which clarifies the types of costs incurred by an insurance entity that can be capitalized in the acquisition of insurance contracts. Only those costs incurred which result directly from and are essential to the successful acquisition of new or renewal insurance contracts may be capitalized. Incremental costs related to unsuccessful attempts to acquire insurance contracts must be expensed as incurred. The amendments are effective for fiscal years and interim periods beginning after December 15, 2011. Early adoption is permitted, and an entity may elect to apply the guidance prospectively or retrospectively. We will adopt the provisions of ASU 2010-26 no later than January 1, 2012, and are currently evaluating the impact of the adoption on our financial position and results of operations; however, we do not expect the impact to be material.

4. Investments

The portion of net unrealized gains for the year ended December 31, 2010 and 2009 that relates to trading securities still held at the reporting date was $188.8 million and $140.6 million, respectively.

The portion of net unrealized gains and losses in respect of trading securities still held at the reporting date using Level 3 measurements (for more information on Level 3 measurements, see Note 5 – "Fair Value Measurements") for the years ended December 31, 2010 and 2009 was $103.9 million gains and $65.7 million losses, respectively.

4. Investments (continued)

The estimated fair values of our fixed-maturity investments and preferred stock held as trading securities at December 31, 2010 and 2009 were as follows:

(U.S. dollars in thousands)	December 31, 2010	December 31, 2009
U.S. Treasury securities and U.S. government agency obligations	$ 89,248	$ 104,643
Corporate securities	1,209,482	1,166,251
Municipal bonds	49,000	40,815
Mortgage and asset-backed securities	1,763,994	1,676,455
Fixed-maturity investments	3,111,724	2,988,164
Preferred stock	67,897	77,410
Total	$ 3,179,621	$ 3,065,574

The contractual maturities of the fixed-maturity investments and preferred stock held as trading securities at December 31, 2010 and 2009 were as follows (actual maturities may differ as a result of calls and prepayments):

	Estimated Fair Value	Estimated Fair Value
(U.S. dollars in thousands)	December 31, 2010	December 31, 2009
Due in one year or less	$ 216,169	$ 174,998
Due after one year through five years	583,264	519,981
Due after five years through ten years	329,536	302,329
Due after ten years	286,658	391,811
	1,415,627	1,389,119
Mortgage and asset-backed securities	1,763,994	1,676,455
Total	$ 3,179,621	$ 3,065,574

4. Investments (continued)

The components of realized and unrealized gains (losses) and of the change in net unrealized appreciation (depreciation) on investments and other balances for the years ended December 31, 2010, 2009, and 2008 were as follows:

(U.S. dollars in thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Gross realized and unrealized gains (losses)			
Fixed-maturity investments			
Gross realized gains	$ 72,157	$ 118,234	$ 37,257
Gross realized losses	(39,523)	(8,888)	(33,863)
Net unrealized gains (losses)	184,899	132,295	(1,866,490)
	217,533	241,641	(1,863,096)
Preferred stock			
Gross realized gains	3,129	2,687	138
Gross realized losses	(2,540)	(270)	(87)
Net unrealized gains (losses)	3,868	8,306	(8,324)
	4,457	10,723	(8,273)
Other			
Change in value of interest rate swap	13,329	(6,907)	-
Interest rate swap interest income	6,906	3,180	-
Realized losses on modco treaties	(174)	(5,628)	(19,374)
Other	195	(19)	(5,152)
	20,256	(9,374)	(24,526)
Net realized and unrealized gains (losses)	$ 242,246	$ 242,990	$ (1,895,895)

Net investment income for the years ended December 31, 2010, 2009, and 2008 was derived from the following sources:

(U.S. dollars in thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Fixed-maturity investments	$ 134,802	$ 138,971	$ 288,877
Preferred stock	4,284	5,250	5,618
Funds withheld at interest	32,132	34,694	73,747
Other investments	3,474	3,300	16,881
Investment expenses	(4,238)	(5,292)	(7,819)
Net investment income	$ 170,454	$ 176,923	$ 377,304

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. We also have established trust funds in connection with certain transactions for the benefit of the ceding companies, which amounts include controlled assets within collateral finance facilities that we consolidate. (Refer to Note 9, "Collateral Finance Facilities and Securitization Structures".) The assets within collateral finance facilities were held for the contractual obligations of those structures and were not available for general corporate purposes.

4. Investments (continued)

The estimated fair value of the components of the restricted assets at December 31, 2010 and 2009 were as follows:

(U.S. dollars in thousands)	December 31, 2010	December 31, 2009
Deposits with U.S. regulatory authorities	$ 16,837	$ 15,863
Trust funds	2,660,942	2,552,590
Total	$ 2,677,779	$ 2,568,453

5. 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 enhances disclosure requirements for fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

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

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

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

As required by FASB ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 and 2) and unobservable (Level 3).

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

Level 2 includes those financial instruments that are valued by independent pricing services or valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various inputs, such as interest rate, credit spread, and foreign exchange rates for the underlying financial instruments. All significant inputs are observable or derived from observable information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed-maturity securities; government or agency securities; and certain mortgage and asset-backed securities.

Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker prices or internally-developed models or methodologies that utilize significant inputs not based on or corroborated by readily-available market information. This category primarily consists of certain less liquid fixed-maturity securities where we cannot corroborate the significant valuation inputs with market observable data. Additionally, the Company’s embedded derivative liabilities, all of which are associated with reinsurance treaties, are classified in Level 3.

5. Fair Value Measurements (continued)

At each reporting period, we classify all assets and liabilities in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability.

The fair values for the majority of our fixed-maturity investments are classified as Level 2. These fair values are obtained primarily from independent pricing services which utilize Level 2 inputs. The pricing services also utilize proprietary pricing models to produce estimates of fair value, primarily utilizing Level 2 inputs along with certain Level 3 inputs. The proprietary pricing models include matrix pricing where expected cash flows are discounted utilizing market interest rates obtained from third-party sources, based on the credit quality and duration of the instrument to fair value.

For securities that may not be reliably priced using internally-developed pricing models, broker quotes are obtained. These broker quotes represent an exit price, but the assumptions used to establish the fair value may not be observable, and, as a result, the fair values are classified as Level 3.

Long-term debt, at fair value (i.e., outstanding Pass-Through Certificates held by third parties) has been valued using Level 2 inputs for the determination of fair value. The fair value was derived with reference to traded prices for identical liabilities.

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

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

The fair values of the underlying assets generally are based upon observable market data using valuation methods similar to those used for assets held directly by us. The fair values of the liabilities are determined by using market-observable swap rates as well as some unobservable inputs, such as actuarial assumptions regarding policyholder behavior. These assumptions require significant management judgment, and the resulting fair values are classified as Level 3.

5. Fair Value Measurements (continued)

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

(U.S. dollars in millions)	December 31, 2010 Total	Level 1	Level 2	Level 3
Investments				
Government securities	$ 89.2	$ -	$ 89.2	$ -
Corporate securities	1,209.5	-	1,081.0	128.5
Municipal bonds	49.0	-	49.0	-
Mortgage and asset-backed securities	1,764.0	-	1,233.8	530.2
Fixed-maturity investments	3,111.7	-	2,453.0	658.7
Preferred stock	67.9	-	11.9	56.0
Total assets at fair value	$ 3,179.6	$ -	$ 2,464.9	$ 714.7
Embedded derivative liabilities	(32.5)	-	-	(32.5)
Total liabilities at fair value	$ (32.5)	$ -	$ -	$ (32.5)

(U.S. dollars in millions)	December 31, 2009 Total	Level 1	Level 2	Level 3
Investments				
Government securities	$ 104.6	$ -	$ 104.4	$ 0.2
Corporate securities	1,166.3	-	1,033.0	133.3
Municipal bonds	40.8	-	40.8	-
Mortgage and asset-backed securities	1,676.5	-	1,203.7	472.8
Fixed-maturity investments	2,988.2	-	2,381.9	606.3
Preferred stock	77.4	-	24.0	53.4
Equity(1)	3.7	3.7	-	-
Derivatives – interest rate swap(2)	25.9	-	25.9	-
Total assets at fair value	$ 3,095.2	$ 3.7	$ 2,431.8	$ 659.7
Embedded derivative liabilities	(35.7)	-	-	(35.7)
Long-term debt, at fair value	(55.1)	-	(55.1)	-
Total liabilities at fair value	$ (90.8)	$ -	$ (55.1)	$ (35.7)

(1) Included in Other investments in the Consolidated Balance Sheets

(2) Included in Other assets in the Consolidated Balance Sheets

5. Fair Value Measurements (continued)

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the year ended December 31, 2010

(U.S. dollars in millions)	Government securities	Corporate securities	Municipal bonds	Mortgage and asset-backed securities	Preferred stock	Embedded derivative liabilities	Total
Beginning balance at January 1, 2010	$ 0.2	$ 133.3	$ -	$ 472.8	$ 53.4	$ (35.7)	$ 624.0
Total realized and unrealized gains (losses) included in net income	(0.2)	3.8	-	117.1	2.7	3.2	126.6
Purchases, issuances, and settlements................		(15.9)	9.9	(60.9)	-	-	(66.9)
Transfers in and/or out of Level 3, net.........................	-	7.3	(9.9)	1.2	(0.1)	-	(1.5)
Ending balance at December 31, 2010 ..	$ -	$ 128.5	$ -	$ 530.2	$ 56.0	$ (32.5)	$ 682.2

In 2010, changes in classifications impacting Level 3 financial instruments are reported as transfers in (out) of the Level 3 category as of the end of each quarterly period in which the transfer occurs.

5. Fair Value Measurements (continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the year ended December 31, 2009

(U.S. dollars in millions)	Government securities	Corporate securities	Municipal bonds	Mortgage and asset-backed securities	Preferred stock	Embedded derivative liabilities	Total
Beginning balance at January 1, 2009	$ 6.7	$ 141.3	$ -	$ 725.0	$ 48.6	$ (347.5)	$ 574.1
Transfers attributable to deconsolidation of Ballantyne Re	-	(9.2)	-	(99.3)	-	-	(108.5)
Total realized and unrealized gains (losses) included in net income	-	16.9	0.1	(37.2)	3.2	311.8	294.8
Purchases, issuances, and settlements	(2.4)	23.6	-	(64.9)	-	-	(43.7)
Transfers in and/or out of Level 3, net	(4.1)	(39.3)	(0.1)	(50.8)	1.6	-	(92.7)
Ending balance at December 31, 2009	$ 0.2	$ 133.3	$ -	$ 472.8	$ 53.4	$ (35.7)	$ 624.0

In 2009, reclassifications impacting Level 3 financial instruments are reported as transfers in (out) of the Level 3 category as of the beginning of the quarter in which the transfer occurs.

6. Fair Value of Financial Instruments

As discussed above, 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, in addition to those disclosed in Note 5, “Fair Value Measurements” are as follows:

(i) Other investments primarily consist of equity securities, which are carried at fair value, and policy loans, which are carried at the outstanding loan balances, and such balances are deemed to approximate fair value.

(ii) As noted above, the funds withheld at interest are equal to the net statutory reserve fund balances retained by the ceding company, and the amounts in the funding accounts consist of fixed-maturity investments held by the ceding companies. The funding accounts are adjusted quarterly to equal the ceding companies’ net statutory reserve balances. The methodologies and assumptions used to determine the fair values of the underlying instruments are consistent with the fair value methodologies and assumptions we use to value our fixed-maturity investments carried at fair value. We refined our fair value estimation methodology during 2010 and have revised the estimated fair value at December 31, 2009 to be consistent with the 2010 methodology, under which the estimated fair value is equal to the carrying value. Any change in the fair value of the fixed-maturity investments held by the ceding companies is included as a component of the embedded derivative liabilities, at fair value.

6. Fair Value of Financial Instruments (continued)

(iii) Fair values for collateral finance facilities are determined with reference to underlying business models and observable market inputs, including considerations of negotiated repurchases. We revised our fair value estimation methodology during 2010 to exclude the benefit of inseparable third party credit enhancements, and have corrected the estimated fair value at December 31, 2009 to be consistent with the 2010 methodology. Refer to Note 23, "Subsequent Events" for information regarding an Orkney I Unwind Transaction.

(iv) Fair values for long-term debt, at par were determined with reference to similar quoted securities during 2010 and 2009, and, in addition for 2009, with reference to settlements of other Company long-term debt during that year.

(v) The fair value of interest-sensitive contract liabilities, which exclude significant mortality risk, is based on the cash surrender value of the liabilities, which is deemed to approximate fair value.

	December 31, 2010		December 31, 2009	
(U.S. dollars in thousands)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Assets				
Fixed-maturity investments	$ 3,111,724	$ 3,111,724	$ 2,988,164	$ 2,988,164
Preferred stock	67,897	67,897	77,410	77,410
Other investments	16,459	16,459	21,482	21,482
Funds withheld at interest	584,617	584,617	608,500	608,500
Interest rate swap derivative(1)	-	-	25,924	25,924
Liabilities				
Interest-sensitive contract liabilities	$ 1,415,580	$ 1,398,365	$ 1,518,365	$ 1,485,554
Collateral finance facilities	1,300,000	659,713	1,300,000	465,277
Embedded derivative liabilities	32,545	32,545	35,732	35,732
Long-term debt, at fair value	-	-	55,068	55,068
Long-term debt, at par value	129,500	61,072	129,500	32,375

(1) Included in Other assets in the Consolidated Balance Sheets

7. Deferred Acquisition Costs

The components of DAC activity for the years ended December 31, 2010 and 2009 were as follows:

(U.S. dollars in thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009
Balance at beginning of year	$ 296,822	$ 375,475
DAC associated with Ballantyne Re (no longer included in the financial statements due to de-consolidation)	-	(711)
Acquisition expenses deferred	3,671	1,906
DAC amortization expense	(31,141)	(79,848)
Balance at end of year	$ 269,352	$ 296,822

The DAC amortization expense in 2010 included $9.7 million attributable to a series of recaptures that were executed during the year.

The DAC amortization expense in 2009 included $24.9 million attributable to the recapture in 2009 of a portion of the Acquired Business sold to Hannover Life Reassurance Company of America (“Hannover Life Re”) and its affiliate Hannover Life Reassurance (Ireland) Limited (“Hannover (Ireland)” and, together with Hannover Life Re, “Hannover Re”) (see Note 13, “Reinsurance-*Sale of a Block of Life Reinsurance North America Business*”), in addition to an accelerated DAC release of $15.5 million on the Financial Solutions business associated with realized gains recorded during the year.

8. Present Value of In-force Business

The activity associated with the present value of in-force business for the years ended December 31, 2010 and 2009 was as follows:

(U.S. dollars in thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009
Balance at beginning of year	$ 38,316	$ 40,105
Interest accrued	1,878	1,965
Amortization	(8,253)	(3,754)
Balance at end of year	$ 31,941	$ 38,316

The amortization of the present value of in-force business in 2010 included $4.3 million attributable to a series of recaptures that were executed during the year.

The gross amount of present value of in-force business and the accumulated amount of amortization at December 31, 2010 and 2009 was as follows:

(U.S. dollars in thousands)	December 31, 2010	December 31, 2009
Gross amount of original present value of in-force business	$ 56,272	$ 56,272
Accumulated interest accrued	15,641	13,763
Accumulated amortization	(39,972)	(31,719)
Net amount of present value of in-force business	$ 31,941	$ 38,316

8. Present Value of In-force Business (continued)

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

(U.S. dollars in thousands) Year ending December 31		
2011	$	2,216
2012		2,047
2013		1,902
2014		1,723
2015		1,727

9. Collateral Finance Facilities and Securitization Structures

The following table reflects the significant balances included in the Consolidated Balance Sheets that are attributable to the collateral finance facilities and securitization structures providing collateral support to the Company as of December 31, 2010:

(U.S. dollars in millions)	Orkney I	Orkney Re II	Total
Assets			
Fixed-maturity investments	$ 1,081.7	$ -	$ 1,081.7
Funds withheld at interest	-	334.5	334.5
Cash and cash equivalents	113.5	1.5	115.0
All other assets	106.0	54.4	160.4
Total assets	$ 1,301.2	$ 390.4	$ 1,691.6
Liabilities			
Reserves for future policy benefits	$ 318.6	$ 123.9	$ 442.5
Collateral finance facilities	850.0	450.0	1,300.0
All other liabilities	19.9	19.5	39.4
Total liabilities	$ 1,188.5	$ 593.4	$ 1,781.9

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 applicable collateral finance facilities and securitization structures to which they relate. The total investments of consolidated VIEs disclosed on the Consolidated Balance Sheets at December 31, 2010 differ from the amounts shown in the above table because the assets needed, based on current projections, to satisfy future policy benefits have been deducted in the determination of the total investments of consolidated VIEs disclosed on the Consolidated Balance Sheets. No assurances can be given that the expected reinsurance liabilities will not increase in the event of adverse mortality experience in our reinsurance agreements. Under certain circumstances, such adverse mortality experience may in future periods increase the amount of assets excluded from the total investments of consolidated VIE on the Consolidated Balance Sheets. These reinsurance liabilities of Orkney I and Orkney Re II are eliminated from the Consolidated Balance Sheets because they represent inter-company transactions.

The following table reflects the significant balances included in the Consolidated Balance Sheets that are attributable to the collateral finance facilities and securitization structures providing collateral support to the Company as of December 31, 2009:

9. Collateral Finance Facilities and Securitization Structures (continued)

(U.S. dollars in millions)	Orkney I	Orkney Re II	Clearwater Re	Total
Assets				
Fixed-maturity investments	$ 1,001.1	$ -	$ -	$ 1,001.1
Funds withheld at interest	-	303.1	-	303.1
Cash and cash equivalents	113.1	1.9	0.3	115.3
All other assets	106.4	60.1	-	166.5
Total assets	$ 1,220.6	$ 365.1	$ 0.3	$ 1,586.0
Liabilities				
Reserves for future policy benefits	$ 313.0	$ 118.0	$ -	$ 431.0
Collateral finance facilities	850.0	450.0	-	1,300.0
All other liabilities	33.9	10.8	0.1	44.8
Total liabilities	$ 1,196.9	$ 578.8	$ 0.1	$ 1,775.8

Orkney I

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

The holders of the Orkney Notes have no recourse against the Company or any of our subsidiaries, other than OHL. The timely payment of interest and ultimate payment of principal for the Orkney Notes are guaranteed by MBIA Insurance Corporation (“MBIA”). We are not required to provide any additional financial support to OHL.

Interest on the principal amount of the Orkney Notes is payable quarterly at a rate equivalent to three-month LIBOR plus 0.53%. At December 31, 2010, the interest rate was 0.82% (compared to 0.80% at December 31, 2009). Any payment of principal, including by redemption, or interest on the Orkney Notes is sourced from dividends from Orkney Re and the balances available in the series of accounts referenced above, generally excluding amounts on deposit in a reinsurance trust account supporting the associated reserve requirements of SRUS. Dividends from Orkney Re may be made only after filing with the Commissioner in accordance with the terms of the underlying transaction documents and in accordance with applicable law. The Orkney Notes also contain customary limitations on lien provisions and customary events of default provisions, which, if breached, could result in the accelerated maturity of the Orkney Notes. OHL has the option to redeem all or a portion of the Orkney Notes subject to certain call premiums.

In accordance with FASB ASC 810-10, Orkney I is considered to be a variable interest entity, and we are considered to hold the primary beneficial interest (as we cede to Orkney Re all of the business assumed by Orkney Re), following an analysis whereby it was determined that we would absorb a majority of the expected losses. As a result, Orkney I is consolidated in our financial statements. The assets of Orkney I consist of fixed-maturity investments and cash and cash equivalents. Our Consolidated Statements of Income (Loss) shows the investment returns of Orkney I as investment income, and the cost of the facility is reflected in collateral finance facilities

9. Collateral Finance Facilities and Securitization Structures (continued)

expense. Funds in the securitization structure are used for the sole purpose of the securitization structure and, hence, are not available for general corporate purposes.

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

Refer to Note 23, "Subsequent Events" for information regarding an Orkney I Unwind Transaction.

Related Party Acquisition of Orkney Notes

We were informed by Cerberus Capital Management, L.P. that one or more of its affiliates had acquired, from one or more unaffiliated third parties, $700 million in aggregate principal amount of the Orkney Notes in 2009. None of the Company, OHL, Orkney Re, or any of our other subsidiaries was a party to this purchase. No terms of the Orkney Notes or any of the underlying transaction documents were changed as a result of this purchase. For further discussion of Cerberus Capital Management, L.P. and its relationship to the Company, see Note 11, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares", Note 21, "Related Party Transactions", and Note 23, "Subsequent Events".

Orkney I Notices of Default

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

On September 21, 2009, MBIA served Orkney Re, OHL and SRUS with a notice of default under the restructuring agreement executed at the time of Orkney Re's redomestication from South Carolina to Delaware, alleging failure by the parties to provide MBIA with an actuarial review in accordance with the requirements set forth in the restructuring agreement. SRUS, OHL, and Orkney Re disagree with such contention. However, in the event such alleged failure to provide an actuarial review ultimately is determined to be a default, and because it was not cured within five business days of the September 21, 2009 notice, then such default would constitute an event of default under the Orkney Insurance Agreement, which, in turn, would provide certain enhanced contractual rights to MBIA under the Orkney Insurance Agreement, including the right to recover from Orkney I any actual losses, costs, and expenses incurred by MBIA in connection with the event of default and the receipt of certain penalty fees. Pursuant to the terms of a letter agreement put in place between SRUS and MBIA at the time of the Orkney I transaction, SRUS would also be obligated to pay, on behalf of Orkney I, certain of the foregoing fees and expenses to the extent due from Orkney I. As of December 31, 2010, MBIA, Orkney Re, OHL, and SRUS are engaged in discussions and negotiations related to the actuarial review, withdrawals from the Orkney I tax accounts, and alleged defaults described above.

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

9. Collateral Finance Facilities and Securitization Structures (continued)

Orkney Re II

On December 21, 2005, Orkney Re II, whose issued ordinary shares are held by a share trustee and its nominees in trust for charitable purposes, issued, in a private offering, $450 million of debt primarily to external investors. The debt consisted of $382.5 million of Series A-1 Floating Rate Guaranteed Notes (the “Series A-1 Notes”), $42.5 million of Series A-2 Floating Rate Notes (the “Series A-2 Notes”), and $25 million of Series B Floating Rate Notes (the “Series B Notes”), all due December 31, 2035 (collectively, the “Orkney Re II Notes”). The Orkney Re II Notes are listed on the Irish Stock Exchange. Proceeds from this private offering were used to fund the Regulation XXX reserve requirements for a defined block of level premium term life insurance policies issued between January 1, 2004 and December 31, 2004, and reinsured by SRUS to Orkney Re II. Proceeds from the Orkney Re II Notes have been deposited into a series of accounts that collateralize the notes and the reserve obligations of SRUS.

The holders of the Orkney Re II Notes have no recourse against the Company or any of our subsidiaries, other than Orkney Re II. Assured Guaranty (UK) Ltd. (“Assured”) has guaranteed the timely payment of the scheduled interest payments and the principal on the maturity date of the Series A-1 Notes. We are not required to provide any additional financial support to Orkney Re II.

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

Interest on the principal amount of the Orkney Re II Notes is payable quarterly at a rate equivalent to three-month LIBOR plus 0.425% for the Series A-1 Notes, three-month LIBOR plus 0.73% for the Series A-2 Notes, and three-month LIBOR plus 3.0% for the Series B Notes. At December 31, 2010, the interest rate on the a) Series A-1 Notes was 0.71% (compared to 0.70% at December 31, 2009), b) Series A-2 Notes was 1.02% (compared to 1.00% at December 31, 2009), and c) Series B Notes was 3.29% (compared to 3.27% at December 31, 2009). The Orkney Re II Notes also contain customary limitations on lien provisions and customary events of default provisions, which, if breached, could result in the accelerated maturity of the Orkney Re II Notes. Orkney Re II has the option to redeem all or a portion of the Orkney Re II Notes, subject to certain call premiums and available (unencumbered) funds.

In accordance with FASB ASC 810-10, Orkney Re II is considered to be a variable interest entity, and we are considered to hold the primary beneficial interest (as we cede to Orkney Re II all of the business assumed by Orkney Re II), following an analysis whereby it was determined that we would absorb a majority of the expected losses. As a result, Orkney Re II is consolidated in our financial statements. The assets of Orkney Re II consist of fixed-maturity investments and cash and cash equivalents. Our Consolidated Statements of Income (Loss) shows the investment returns of Orkney Re II as investment income, and the cost of the securitization structure is reflected in collateral finance facilities expense. Funds in the securitizations are primarily used for the purpose of the securitizations and, hence, are not available for general corporate purposes.

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

Orkney Re II Event of Default, Acceleration and Foreclosure

On the scheduled interest payment date of May 11, 2009, Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes. Failure to make such payments in full when due constituted an event of default under the Orkney Re II indenture (“Orkney Re II EOD”). Assured, in its capacity as financial guarantor of the

9. Collateral Finance Facilities and Securitization Structures (continued)

Series A-1 Notes, made guarantee payments on the Series A-1 Notes in the amount of $1.2 million. As a result of the Orkney Re II EOD, Assured obtained, and will continue to have, certain enhanced contractual rights under the transaction documents, and additional fees will be accrued for the guarantee coverage.

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

Following these actions, on June 26, 2009, SRUS exercised its contractual right under its agreements with Orkney Re II to withdraw all assets from the reserve credit trust established by Orkney Re II for the benefit of SRUS (which trust does not form part of the Orkney Re II Collateral). The withdrawn assets were deposited into SRUS segregated accounts pursuant to the terms of the reinsurance agreement between SRUS and Orkney Re II (the "Orkney Re II Reinsurance Agreement"), where they are held in order to further secure Orkney Re II's obligations to SRUS under the Orkney Re II Reinsurance Agreement, including providing reserve credit to SRUS for the reinsurance liabilities that continue to be ceded to Orkney Re II and for certain other permissible uses under the Orkney Re II Reinsurance Agreement. The transfer of assets had no impact on our consolidated financial statements.

On the scheduled interest payment dates of August 11, 2009, November 12, 2009, February 11, 2010, May 11, 2010, August 11, 2010 and November 11, 2010, Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes. Assured made guarantee payments on the Series A-1 Notes in the amount of $1.4 million, $0.9 million, $0.7 million, $0.6 million, $0.8 million and $0.8 million, respectively.

For further discussion on the Orkney Re II scheduled interest payments on the Series A-1 Notes, see Note 23, "Subsequent Events".

Clearwater Re

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

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

In accordance with FASB ASC 810-10, Clearwater Re was considered to be a variable interest entity and we were deemed to hold the primary beneficial interest following a quantitative analysis whereby it was determined that

9. Collateral Finance Facilities and Securitization Structures (continued)

we would absorb a majority of the expected losses. As a result, Clearwater Re was consolidated in our financial statements. The assets of Clearwater Re were recorded as fixed-maturity investments and cash and cash equivalents. Our Consolidated Statements of Income (Loss) included the investment return of Clearwater Re as investment income and the cost of the facility was reflected in collateral finance facilities expense. Funds in the Clearwater Re facility were fully used solely for the purpose of the facility and hence not available for general corporate purposes. See Note 4, "Investments".

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

On August 29, 2008, we completed a full recapture, effective as of July 1, 2008, of the business ceded from SRUS to Clearwater Re and immediately retroceded the recaptured business, also effective as of July 1, 2008, from SRUS to an unaffiliated third party reinsurer which in turn has retroceded to Hannover (Ireland) (collectively, the "Clearwater Re Recapture Transaction"). Effective September 30, 2008, SRUS retroceded the remaining portion of the defined block of business that it had retained at the time of the Clearwater Re transaction to the same third party reinsurer who in turn retroceded such business to Hannover (Ireland). In connection with the Clearwater Re Recapture Transaction, the bank counterparties to the Clearwater Re facility were repaid in full with assets from within the facility, which secured the obligations owed to the bank counterparties. We also paid a $4 million fee to the bank counterparties and the facility, and the related forbearance agreement and its terms, were terminated. On a consolidated GAAP basis, the Clearwater Re Recapture Transaction and the subsequent retrocession of a related portion of business resulted in a reduction of total assets and total liabilities of approximately $624 million and $504 million, respectively, resulting in a GAAP pre-tax loss of $119.5 million during the year ended December 31, 2008. The loss primarily was comprised of the write-off of deferred acquisition costs of $75.1 million and a negative ceding commission of $39.4 million. The foregoing transactions eliminated the associated reserve credit strain in SRUS.

Ballantyne Re

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

Initially, in accordance with FASB ASC 810-10, Ballantyne Re was considered to be a variable interest entity, and we were considered to hold the primary beneficial interest, following a quantitative analysis whereby it was determined that we would absorb a majority of the expected losses. As a result, Ballantyne Re was consolidated in our financial statements through December 31, 2008.

Effective January 1, 2009, Ballantyne Re is no longer consolidated within the financial statements of SRGL. Pursuant to the Purchase Agreement (as defined herein) for the disposal of the Acquired Business, Hannover Re explicitly agreed to assume the mortality risk for all recaptures of business from Ballantyne Re. Our disposal of the variable interest to absorb the mortality risk recaptured from Ballantyne Re under the reinsurance agreement constituted a reconsideration event related to the consolidation of Ballantyne Re under FASB ASC 810-10, Consolidation - Overall ("FASB ASC 810-10"). We subsequently completed a primary beneficiary analysis and concluded that we were no longer the primary beneficiary of Ballantyne Re as defined within FASB ASC 810-10, and, as a result, we no longer consolidate Ballantyne Re into the consolidated financial statements of SRGL. The de-consolidation of Ballantyne Re reduced our consolidated total assets and liabilities by approximately $885 million

9. Collateral Finance Facilities and Securitization Structures (continued)

and $2,035 million, respectively, resulting in a one-time non-cash de-consolidation gain of $1,150 million, which we recognized in the first quarter of 2009. This gain had no impact on our liquidity position. The following table reflects the significant amounts attributable to Ballantyne Re that were included in our Consolidated Statement of Income (Loss) for the year ended December 31, 2008:

(U.S. dollars in millions)	
Revenues	
Premiums earned, net	$ 170.0
Investment income, net	89.9
Net realized and unrealized gains (losses)	(942.4)
Total revenues	$ (682.5)
Expenses	
Claims and other policy benefits	$ 59.6
Acquisition costs and other insurance expenses, net	41.9
Operating expenses	0.1
Collateral finance facilities expense	80.2
Total benefits and expenses	$ 181.8

As of December 31, 2010, we had no remaining direct loss exposure related to Ballantyne Re since our interests in the Ballantyne Re Class D Notes and Preferred Shares are valued at $0 and are classified as trading securities on the Consolidated Balance Sheets. The Class C Notes were contractually written-off during the fourth quarter of 2008.

SRUS remains liable for breaches of its representations, warranties, covenants, and other obligations that relate to periods before the assignment and novation to SLD of the reinsurance agreement with Ballantyne Re. In addition, the Company 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.

HSBC II

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

9. Collateral Finance Facilities and Securitization Structures (continued)

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

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

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

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

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

Reinsurance Facility

On December 22, 2005, we entered into a long-term reinsurance facility ("Reinsurance Facility"), with a third-party Bermuda-domiciled reinsurer that provided up to $1 billion of collateral support for a portion of the business acquired from the ING Companies and subject to Regulation XXX reserve requirements. The Bermuda reinsurer

9. Collateral Finance Facilities and Securitization Structures (continued)

provided reserve credit in the form of letters of credit or assets in trust equal to the U.S. statutory reserves. As of December 31, 2008, $1 billion of collateral support was being provided. All of the business included in this Reinsurance Facility formed a part of the Acquired Business, and as such, was acquired by Hannover Re, effective January 1, 2009, in connection with Hannover Re's acquisition of the Acquired Business. The transfer of the Reinsurance Facility to Hannover Re was accomplished through a series of novation agreements between and among the applicable Company affiliate, the ING Companies and Hannover Re. The facility was not considered a variable interest entity and, consequently, was not consolidated in our consolidated financial statements.

10. Debt Obligations and Other Funding Arrangements

Long-term debt consisted of:

(U.S. dollars in thousands)	**December 31, 2010**	**December 31, 2009**
Capital Securities Due 2032*	$ 17,500	$ 17,500
Preferred Trust Securities Due 2033*	20,000	20,000
Trust Preferred Securities Due 2033*	10,000	10,000
Trust Preferred Securities Due 2034*	32,000	32,000
Trust Preferred Securities Due December 2034*	50,000	50,000
Long-term debt, at par value	$ 129,500	$ 129,500
Outstanding Pass-Through Certificates	$ -	$ 55,068
Long-term debt, at fair value	$ -	$ 55,068

**Defined below.*

10. Debt Obligations and Other Funding Arrangements (continued)

A summary of the terms of the long-term debt, at par value (the "Capital and Trust Preferred Securities"), as more fully described below, is 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 (as defined below)	Capital Trust*	Capital Trust II*	GPIC Trust*	Capital Trust III*	SFL Trust I*
Long-term debt outstanding	$17,500	$20,000	$10,000	$32,000	$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 at December 31, 2010	4.30%	4.25%	4.20%	4.10%	3.80%
Interest rate at December 31, 2009	4.25%	4.20%	4.15%	4.05%	3.75%
Maximum number of quarters for which interest may be deferred	20	20	20	20	20
Number of quarters for which interest was deferred as of December 31, 2010	8	8	8	8	8

**Defined below.*

Capital Securities Due 2032

On December 4, 2002, Scottish Holdings Statutory Trust I, a Connecticut statutory business trust ("Capital Trust"), issued and sold in a private offering an aggregate of $17.5 million Floating Rate Capital Securities (the "Capital Securities Due 2032"). All of the common shares of the Capital Trust are owned by SHI, one of our wholly-owned subsidiaries. The sole assets of the Capital Trust consist of $18 million principal amount of Floating Rate Debentures (the "Debentures") issued by SHI, and have all the same features (maturity date, interest payable, interest rate, maximum number of quarters for which interest may be deferred, and the number of quarters for which interest was deferred as of December 31, 2010) as the Capital Securities Due 2032.

Preferred Trust Securities Due 2033

On October 29, 2003, Scottish Holdings, Inc. Statutory Trust II, a Connecticut statutory business trust ("Capital Trust II"), issued and sold in a private offering an aggregate of $20 million Preferred Trust Securities (the "Preferred Trust Securities Due 2033"). All of the common shares of Capital Trust II are owned by SHI. The sole assets of Capital Trust II consist of $20.6 million principal amount of Floating Rate Debentures (the "2033 Floating Rate Debentures") issued by SHI, and have all the same features (maturity date, interest payable, interest rate, maximum number of quarters for which interest may be deferred, and the number of quarters for which interest was deferred as of December 31, 2010) as the Preferred Trust Securities Due 2033.

10. Debt Obligations and Other Funding Arrangements (continued)

Trust Preferred Securities Due 2033

On November 14, 2003, GPIC Holdings Inc. Statutory Trust, a Delaware statutory business trust ("GPIC Trust") issued and sold in a private offering an aggregate of $10 million Trust Preferred Securities (the "Trust Preferred Securities Due 2033"). All of the common shares of GPIC Trust are owned by SHI. The sole assets of GPIC Trust consist of $10.3 million principal amount of Junior Subordinated Notes (the "Junior Subordinated Notes") issued by SHI, and have all the same features (maturity date, interest payable, interest rate, maximum number of quarters for which interest may be deferred, and the number of quarters for which interest was deferred as of December 31, 2010) as the Trust Preferred Securities Due 2033.

Trust Preferred Securities Due 2034

On May 12, 2004, Scottish Holdings, Inc. Statutory Trust III, a Connecticut statutory business trust ("Capital Trust III") issued and sold in a private offering an aggregate of $32 million Trust Preferred Securities (the "Trust Preferred Securities Due 2034"). All of the common shares of Capital Trust III are owned by SHI. The sole assets of Capital Trust III consist of $33 million principal amount of Floating Rate Debentures (the "2034 Floating Rate Debentures") issued by SHI, and have all the same features (maturity date, interest payable, interest rate, maximum number of quarters for which interest may be deferred, and the number of quarters for which interest was deferred as of December 31, 2010) as the Trust Preferred Securities Due 2034.

Trust Preferred Securities Due December 2034

On December 18, 2004, SFL Statutory Trust I, a Delaware statutory business trust ("SFL Trust I") issued and sold in a private offering an aggregate of $50 million Trust Preferred Securities (the "Trust Preferred Securities Due December 2034" and, together with the Trust Preferred Securities Due 2034, the Trust Preferred Securities Due 2033, the Preferred Trust Securities Due 2033 and the Capital Securities Due 2032, the "Capital and Trust Preferred Securities"). All of the common shares of SFL Trust I are owned by Scottish Financial (Luxembourg) S.a.r.l ("SFL"). The sole assets of SFL Trust I consist of $51.5 million principal amount of Floating Rate Debentures (the "December 2034 Floating Rate Debentures") issued by SFL, and have all the same features (maturity date, interest payable, interest rate, maximum number of quarters for which interest may be deferred, and the number of quarters for which interest was deferred as of December 31, 2010) as the Trust Preferred Securities Due December 2034.

SALIC has guaranteed SHI's and SFL's obligations under the Debentures, the 2033 Floating Rate Debentures, the Junior Subordinated Notes, the 2034 Floating Rate Debentures, and the December 2034 Floating Rate Debentures and distributions and other payments due on the Capital and Trust Preferred Securities.

For all the securities listed above, any deferred payments would accrue interest quarterly on a compounded basis.

Deferral of Interest Payments on the Capital and Trust Preferred Securities

In order to preserve liquidity, we began deferring interest payments as of March 4, 2009 on the Capital and Trust Preferred Securities. These deferrals were permitted by the terms of the indentures governing the securities and were made at the discretion of our Board of Directors (the "Board") to preserve liquidity. As of December 31, 2010, we have accrued and deferred payment of $11.4 million of interest on such securities. SHI and SALIC are restricted in their ability to make dividend payments in any period where interest payment obligations on these securities are not current.

For further discussion on the accrued and deferred payment on our Capital and Trust Preferred Securities subsequent to December 31, 2010, see Note 23, "Subsequent Events".

10. Debt Obligations and Other Funding Arrangements (continued)

Stingray Investor Trust and Stingray Pass-Through Trust (together "Stingray")

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

As of April 14, 2008, this facility was fully utilized and $325 million of funding agreements were issued to the Stingray Investor Trust.

The Stingray structure included an interest rate swap (the "Interest Rate Swap") as a mechanism for charging interest to SALIC on the funding agreements at a variable interest rate and paying interest to the Pass-Through Certificate holders at a fixed rate. The Interest Rate Swap was included in Other Assets on our Consolidated Balance Sheets at a fair value of $25.9 million at December 31, 2009. Movements in the fair value of the Interest Rate Swap were included in net realized and unrealized income (losses) in the Consolidated Statements of Income (Loss).

During 2009, we acquired Pass-Through Certificates in privately-negotiated purchases which represented reconsideration events under FASB ASC 810-10. We used a quantitative analysis in determining that the holder of the majority of the Pass-Through Certificates would absorb the majority of the expected gains or losses of Stingray. As a result of these acquisitions, by October 8, 2009, we had acquired Pass-Through Certificates with a stated amount of $169.4 million. This holding represented the majority of the Pass-Through Certificates; therefore, at that time, we determined we were the primary beneficiary of Stingray, and we were required to consolidate Stingray in our consolidated financial statements. The consolidation of Stingray was recorded in accordance with ASC 810-10, which required us to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in Stingray at the acquisition date, measured at their fair values as of that date. We were also required to eliminate any inter-company balances and transactions. The total assets and liabilities of Stingray at initial consolidation were $32.8 million and $52.1 million, respectively. As a result of the initial consolidation of Stingray, we recognized a gain of $248.9 million in the fourth quarter of 2009 as follows.

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

On December 15, 2009, pursuant to a cash tender offer that had been launched on November 16, 2009, we acquired $57.3 million in aggregate stated amount of Pass-Through Certificates. As a result, as of December 31, 2009, we had repurchased $226.7 million in aggregate stated amount of the Pass-Through Certificates, leaving $98.3 million outstanding with non-affiliated investors.

In January 2010, we acquired, in a privately-negotiated transaction, an additional $18.1 million of aggregate stated amount of Pass-Through Certificates. During July and August 2010, we acquired, through privately-negotiated transactions, an additional $55.5 million and $8 thousand, respectively, of aggregate stated amount of

10. Debt Obligations and Other Funding Arrangements (continued)

Pass-Through Certificates. In conjunction with the July acquisitions, we obtained consent from the sellers to proposed amendments to certain of the transaction-related documents. The proposed amendments provided for the termination of the Interest Rate Swap effective July 2, 2010. The termination of the Interest Rate Swap resulted in a swap termination payment to the Stingray Pass-Through Trust of $39.2 million (the “Swap Termination Payment”), which amount subsequently was distributed on the July 12, 2010 payment date pro rata to all holders of record of Pass-Through Certificates as of June 30, 2010, including the July sellers. As a result of its ownership as of June 30, 2010 of $244.8 million in aggregate stated amount of Pass-Through Certificates, SALIC received $29.5 million of the Swap Termination Payment on the July 12, 2010 distribution date.

Pursuant to a cash tender offer launched on July 7, 2010, we acquired another $24.7 million in aggregate stated amount of Pass-Through Certificates. On September 2, 2010, we cancelled the entire $325 million in aggregate stated amount of the Pass-Through Certificates. In connection with the cancellation, the corresponding $325 million of funding agreements were surrendered by the Stingray Investor Trust, and all unamortized debt issuance costs relating to Stingray, in the amount of $2.8 million, were written off. These were included in collateral finance facilities expenses in the Consolidated Statements of Income (Loss).

We had elected the fair value option under FASB ASC 825 in respect of the Pass-Through Certificates held by non-affiliated investors prior to the cancellation of the Pass-Through Certificates. The fair value at December 31, 2009 of the outstanding Pass-Through Certificates held by non-affiliated investors was $55.1 million and was included in long-term debt, at fair value in our Consolidated Balance Sheets. Changes in fair value were reflected in change in value of long-term debt, at fair value, in the Consolidated Statements of Income (Loss).

Premium Asset Trust Series 2004-4

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

During the first quarter of 2009, we extinguished, primarily through negotiated repurchases, SALIC’s unsecured funding agreement payment obligation in respect of the PATS. The extinguishment of PATS securities acquired through negotiated repurchases and the settlement of the remaining funding obligation in respect of all PATS securities not repurchased prior to the PATS Maturity Date were completed for a total consideration of $46.5 million compared to the $100 million par value of the PATS. Consequently, in accordance with FASB ASC Topic 860, Transfers and Servicing, we recorded a gain on the extinguishment of the PATS debt of $53.5 million in the first quarter of 2009.

Credit Facilities

On November 30, 2006, SALIC and Scottish Re Limited entered into a one year, $5 million letter of credit facility with a single bank on a fully-secured basis. This facility was amended on October 31, 2007, to a term of two years and to a limit of $15 million. On October 31, 2009, this facility was automatically renewed and remains in place until cancelled by either us or the bank. Outstanding letters of credit for SALIC at December 31, 2010 and 2009 were $75,000.

11. Mezzanine Equity – Convertible Cumulative Participating Preferred Shares

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

As of December 31, 2010, MassMutual Capital and Cerberus hold in the aggregate approximately 68.7% of our equity voting power, along with the right to designate two-thirds of the members of our Board. Refer to Note 23, "Subsequent Events" for information regarding a Merger Agreement.

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

We have accounted for the Convertible Cumulative Participating Preferred Shares in accordance with FASB ASC Subtopic 470-20, Debt – Debt with Conversion and Other Options ("FASB ASC 470-20"). Dividends on the Convertible Cumulative Participating Preferred Shares are cumulative and accrete daily on a non-compounding basis at a rate of 7.25% per annum on the stated value of $600 million, whether or not there are profits, surplus, or other funds available for the payment of dividends. Such dividends will be made solely by increasing the liquidation preference of the Convertible Cumulative Participating Preferred Shares. As of December 31, 2010, the amount of dividends accreted pursuant to the terms of the Convertible Cumulative Participating Preferred Shares is $159.3 million in the aggregate, or $159.26 per share.

Redemption of the Convertible Cumulative Participating Preferred Shares is contingent upon a change in control. Since neither liquidation nor a change in control 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 Convertible Cumulative Participating Preferred 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 Cumulative Participating Preference Shares to ordinary shares.

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

Upon a change-in-control event, the redemption price of the Convertible Cumulative Participating Preferred Shares is an amount equal to the greater of (i) the stated value of the outstanding Convertible Cumulative Participating Preferred Shares, plus an amount equal to the sum of all accreted dividends through the earlier of (A)

11. Mezzanine Equity - Convertible Cumulative Participating Preferred Shares (continued)

the date of payment of the consideration payable upon a change-in-control event, or (B) the fifth anniversary of the issue date of the Convertible Cumulative Participating Preferred Shares, or (ii) the amount that the holder of the Convertible Cumulative Participating Preferred Shares would have been entitled to receive with respect to such change-in-control event if it had exercised its right to convert all or such portion of its Convertible Cumulative Participating Preferred Shares for ordinary shares immediately prior to the date of such change-in-control event.

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

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

Pursuant to our Securities Purchase Agreement, dated November 26, 2006 (the “Agreement”), with MassMutual Capital and Cerberus, certain representations and warranties were provided relating to our statutory accounting records. As discussed in Note 19 “Commitments and Contingencies”, certain statutory accounting errors were discovered in 2006 which have resulted in an indemnification claim against us, by MassMutual Capital and Cerberus. Resolution of this claim could result in a change in the conversion formula on these securities.

12. Shareholders' Equity (Deficit)

Ordinary Shares

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

The following table summarizes the activity in our ordinary shares and non-cumulative Perpetual Preferred Shares during the years ended December 31, 2010, 2009, and 2008:

	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Ordinary shares			
Beginning and end of year	68,383,370	68,383,370	68,383,370
Non-cumulative Perpetual Preferred Shares			
Beginning of year	5,000,000	5,000,000	5,000,000
Non-cumulative Perpetual Preferred Shares redeemed	(193,937)	-	-
End of year	4,806,063	5,000,000	5,000,000

Perpetual Preferred Shares

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

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.

Dividends on the Perpetual Preferred Shares are payable on a non-cumulative basis at a rate per annum of 7.25% until the dividend payment date in July 2010. Thereafter, the dividend rate may be at a fixed rate determined through remarketing of the Perpetual Preferred Shares for specific periods of varying length not less than six months or may be at a floating rate reset quarterly based on a predefined set of interest rate benchmarks. During any dividend period, unless the full dividends for the current dividend period on all outstanding Perpetual Preferred Shares have been declared or paid, no dividend may be paid or declared on our ordinary shares and no ordinary shares or other junior shares may be purchased, redeemed, or otherwise acquired for consideration. Declaration of dividends on the Perpetual Preferred Shares is prohibited if we fail to meet specified capital adequacy, net income, or shareholders' equity levels. In accordance with the terms of the Perpetual Preferred Shares, dividends on the Perpetual Preferred Shares generally may be funded only to the extent they are payable out of our distributable profits, and/or the proceeds of a new issue of shares, and/or out of the Share Premium Account (as defined in the Certificate of Designations) related to the Perpetual Preferred Shares.

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

Ratings of the Perpetual Preferred Shares were withdrawn by Standard & Poor's, Moody's, Fitch Ratings and A.M. Best Company in 2009 following our notification to each of the rating agencies that we would no longer be

12. Shareholders' Equity (Deficit) (continued)

compensating the agencies for their maintenance of such ratings. See Note 18, "Rating Agency Matters".

On June 23, 2010, pursuant to a cash tender offer launched on May 7, 2010, we acquired \$4.8 million in aggregate liquidation preference of Perpetual Preferred Shares, which shares were immediately redeemed. As a result, a gain on redemption of Perpetual Preferred Shares of \$3.9 million was recorded as a component of net income attributable to ordinary shareholders for the purpose of calculating earnings per share.

Dividends on Ordinary Shares

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

On July 28, 2006, our Board suspended the dividend on the ordinary shares. All future payments of dividends are at the discretion of our Board and will depend on our income, capital requirements, insurance regulatory conditions, operating conditions, and such other factors as the Board may deem relevant. Notwithstanding the foregoing, so long as any dividends remain outstanding from any prior dividend period on our Perpetual Preferred Shares, as discussed below, we generally are precluded from paying or declaring any dividend on the ordinary shares.

Dividends on Perpetual Preferred Shares

On April 14, 2008, we announced that, given our current financial condition, our Board in its discretion had decided not to declare a dividend on our Perpetual Preferred Shares for the April 15, 2008 dividend payment date. In addition, we announced that, pursuant to the Certificate of Designations for our Perpetual Preferred Shares, our Board may be precluded from declaring and paying dividends on the October 15, 2008 dividend payment date in the event we did not meet certain financial tests under the terms of the Perpetual Preferred Shares required for us to pay such dividends, which tests subsequently were not met for such dividend payment date. On July 3, 2008, the Board determined that in light of our financial condition and in accordance with the terms of the forbearance agreements with the relevant counterparties to certain of our then outstanding collateral finance facilities, we would suspend the cash dividend for the July 15, 2008 payment date. In accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares, our Board was precluded from declaring and paying dividends on each of the 2009 and 2010 dividend payment dates and, as a result, did not declare and pay a dividend on such dates. Although permitted to declare and pay a dividend in connection with the January 15, 2011 dividend payment date, the Board determined on December 20, 2010, not to declare and pay dividend on such dividend payment date. 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. Nonpayment of dividends on July 15, 2009 marked the sixth dividend period for which dividends had not been declared and paid. This right to elect two directors to our Board has not been exercised as of December 31, 2010. For further discussion on the non-declaration of dividends on Perpetual Preferred Shares, refer to Note 23 "Subsequent Events".

13. Reinsurance

Premiums Earned, Net

The components of the net premiums earned were as follows for the years ended:

(U.S. dollars in thousands)	December 31, 2010	December 31, 2009	December 31, 2008
Premiums assumed	$ 714,916	$ 763,190	$ 2,049,510
Premiums ceded	(293,782)	(311,390)	(398,404)
Premiums earned, net	$ 421,134	$ 451,800	$ 1,651,106

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

Claims, Policy Benefits and Changes in Policyholder Reserves, Net

The components of the claims, policy benefits and changes in policyholder reserves, net were as follows for the years ended:

(U.S. dollars in thousands)	December 31, 2010	December 31, 2009	December 31, 2008
Claims, policy benefits and changes in policyholder reserves assumed	$ 617,723	$ 267,240	$ 1,954,194
Claims, policy benefits and changes in policyholder reserves ceded	(223,105)	(290,166)	(374,782)
Claims, policy benefits and changes in policyholder reserves, net	$ 394,618	$ (22,926)	$ 1,579,412

At December 31, 2010 and 2009, there were no reinsurance ceded receivables associated with a single reinsurer in excess of 1% of total assets.

Sale of a Block of Life Reinsurance North America Business

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

When we originally purchased the Acquired Business in 2004, the ING Companies reinsured their individual life reinsurance business to us on a 100% indemnity reinsurance basis. A large portion of such business included guaranteed level premium term life insurance that was subject to the Regulation XXX reserve requirements and universal life policies with secondary guarantees subject to the "Regulation AXXX" reserve requirements. Under our 2004 agreement with the ING Companies, the ING Companies were obligated to maintain collateral for the Regulation XXX and AXXX reserve requirements of the Acquired Business for the duration of such requirements, and financial incentives were provided to encourage us to replace this financing with alternative third party financing. The Acquired Business generally does not include business previously ceded by SRUS to Ballantyne Re, as the reinsurance transaction with this special purpose reinsurance vehicle was novated and assigned from SRUS to

13. Reinsurance (continued)

SLD effective October 1, 2008. However, the Acquired Business does include the business recaptured from Ballantyne Re in connection with a series of recaptures during 2008 in which SRUS recaptured business from Ballantyne Re, which business then was recaptured by SLD, which in turn ceded the recaptured business to SLDI, who ceded it to SRLB (the foregoing recaptures, collectively, the "Ballantyne Recaptures"), and the business recaptured in connection with the unwind in 2008 of our former HSBC II collateral finance facility (together with the Ballantyne Recaptures, the "ING Financings"). In connection with each of the ING Financings, SLD ceded the applicable recaptured business to SLDI, which ceded the recaptured business to SRLB. SLDI agreed to provide, or cause the provision of, one or more letters of credit in order to provide SLD with statutory financial statement credit for the excess reserves associated with the ING Financings. As partial consideration for each of the ING Financings, the Company agreed to bear the costs of the letters of credit by paying SLD a facility fee based on the face amount of such letters of credit outstanding. Upon closing the transactions contemplated by the Purchase Agreement, Hannover Re assumed the business related to the ING Financings as part of the Acquired Business, as well as the obligation to pay the existing and any future increases in the fees for the related letters of credit.

In connection with the Purchase Agreement, the ING Companies and certain of the Sellers entered into recapture agreements (and, in specific instances, novations to Hannover Re of certain existing reinsurance agreements) with respect to the Acquired Business, and the ING Companies and Hannover Re subsequently entered into new reinsurance agreements with respect to the Acquired Business immediately thereafter. These recapture and reinsurance transactions and the novations had an effective date of January 1, 2009. SRUS and SRLB remain responsible for liabilities and obligations to SLD and SLDI under their reinsurance agreements with these parties to the extent such liabilities were attributable to periods prior to January 1, 2009, but we were released from all associated policy holder liabilities attributable to periods subsequent to December 31, 2008.

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

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

The release of liabilities associated with the transaction, as noted above, resulted in a pre-tax gain of $703.6 million, after transaction expenses and related costs. This gain was also subject to certain contingencies, which were all satisfied during 2009. This total gain is summarized as follows:

13. Reinsurance (continued)

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

This transaction resulted in a $49.8 million income tax expense due to an increase in our valuation allowance. The increased valuation allowance was because the remaining deferred tax liabilities did not support the full recoverability of our deferred tax assets. Refer to Note 17, “Quarterly Financial Data (Unaudited)”.

14. Employee Benefit Plans

401(k) Plan

We sponsor a 401(k) plan in the United States in which employee contributions on a pre-tax basis are supplemented by partial matching contributions by the Company. These total contributions are invested, at the election of the employee, in one or more investment portfolios. The Company’s expenses for the matching contributions to the 401(k) plan were $0.4 million, $0.5 million and $1.5 million, in the years ended December 31, 2010, 2009, and 2008, respectively.

Stock Based Incentive Compensation Plans

2007 Stock Option Plan

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

14. Employee Benefit Plans (continued)

Options issued under the 2007 Plan vest as follows:

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

- 50% of an option grant to an employee or consultant vests based on the achievement of certain performance targets as established by the Board with respect to each relevant fiscal year ("Performance-Based Options"). 10% of the Performance-Based Options vest following the close of each of the five fiscal years following the grant date, subject to our attainment of the performance targets established by the Board with respect to the relevant fiscal year. In addition, 10% of the Performance-Based Options vest following the close of each of the five fiscal years following the grant date, subject to the recipient's respective division's or segment's attainment of the performance targets established by the Board with respect to the relevant fiscal year. Although the Performance-Based Options may vest, they do not become exercisable until the end of the fifth fiscal year following May 7, 2007.

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

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

As of December 31, 2010, we had 3,906,299 options outstanding of which 3,805,299 options were exercisable. As of December 31, 2009, we had 4,706,592 options outstanding of which 4,274,592 options were exercisable.

Non-cash compensation expense incurred for stock options for the years ended December 31, 2010, 2009, and 2008 was $0.4 million, $0.7 million, and $2 million, respectively.

As of December 31, 2010 and 2009, there was $0.3 million and $1.1 million, respectively, of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a period of up to five years or immediately upon a change in control. Upon a change in control, all stock options will immediately vest.

15. Income Taxes

For the years ended December 31, 2010, 2009, and 2008, we had income tax expense (benefit) from continuing operations, by jurisdiction, as follows:

(U.S. dollars in thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Current tax expense (benefit):			
U.S.	$ -	$ (8,088)	$ -
Ireland	-	-	-
Other non-U.S.	(33,590)	-	43
Total current tax expense (benefit)	(33,590)	(8,088)	43
Deferred tax expense (benefit):			
U.S.	(5,892)	49,838	(9,957)
Ireland	1	(861)	(2,566)
Other non-U.S.	1,540	8,642	5,644
Total deferred tax expense (benefit)	(4,351)	57,619	(6,879)
Total tax expense (benefit)	$ (37,941)	$ 49,531	$ (6,836)

The weighted average expected tax provision has been calculated using the pre-tax accounting income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. Reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate for the years ended December 31, 2010, 2009, and 2008 is provided below:

(U.S. dollars in thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Pre-tax income (loss)	$ 198,602	$ 2,355,574	$ (2,676,007)
Expected tax provision at weighted average rate	53,516	196,629	(609,994)
Change in valuation allowance	(55,271)	(147,580)	617,973
Intercompany note cancellation	-	-	(6,154)
Uncertain tax positions	(37,484)	8,558	(18,128)
Other and state taxes	1,298	(8,076)	9,467
Total tax expense (benefit)	$ (37,941)	$ 49,531	$ (6,836)

15. Income Taxes (continued)

The change in valuation allowance from 2008 to 2009 above excludes certain valuation allowance changes, principally the deconsolidation of Ballantyne Re, that do not impact total tax expense (benefit).

We are not subject to income taxation other than as stated above. There can be no assurance that there will not be changes in applicable laws, regulations or treaties, which might require us to change the way we operate or become subject to taxes. At December 31, 2010 and 2009, we had tax operating loss carry forwards in our U.S. and Irish entities, as presented in the table below.

(U.S. dollars in thousands)	U.S. Life & Non-Life Groups	Irish Operating Company	Irish Special Purpose Vehicles	Total
Operating loss carry forwards available at December 31, 2009	$ 593,788	$ 523,961	$ 323,808	$ 1,441,557
Operating losses accrued during 2010	126,272	880	(17,537)	109,615
Operating loss carry forwards available at December 31, 2010	$ 720,060	$ 524,841	$ 306,271	$ 1,551,172
Deferred tax asset for operating losses, before valuation allowance, at December 31, 2010	$ 246,187	$ 65,605	$ 76,568	$ 388,360

The operating loss carry forwards in our U.S. entities will expire, if not utilized, in years 2021 through 2030. The operating loss carry forwards in our Irish entities benefit from an unlimited carry forward period. These net operating loss carry forwards resulted primarily from the current operations of SRUS, SRLC, SHI, SRD, Orkney Re, and Orkney Re II.

Our U.S. subsidiaries are subject to federal, state and local corporate income taxes and other taxes applicable to U.S. corporations. Upon distribution of current or accumulated earnings and profits in the form of dividends or otherwise from our U.S. subsidiaries to us, we would be subject to U.S. withholding taxes at a 30% rate. Significant components of our deferred tax assets and liabilities as of December 31, 2010 and 2009 were as follows:

15. Income Taxes (continued)

(U.S. dollars in thousands)	December 31, 2010	December 31, 2009
Deferred tax asset		
Net operating losses (net of FASB ASC 740-10 and section 382*)	$ 388,360	$ 349,568
Unrealized depreciation on investments	38,038	151,995
Intangible assets	3,340	4,272
Capital loss carryforwards	22,372	2,111
Collateral finance facilities costs	649	5,623
Surplus note accrual	13,923	10,594
Embedded derivative liabilities	10,970	7,623
Other	6,988	7,057
Total deferred tax asset	484,640	538,843
Deferred tax liability		
Deferred acquisition costs	(53,578)	(43,302)
Reserves for future policy benefits	(136,888)	(140,459)
Present value of in-force business	(10,860)	(13,027)
Other	(159)	(1,421)
Total deferred tax liability	(201,485)	(198,209)
Net deferred tax asset before valuation allowance	283,155	340,634
Valuation allowance	(327,316)	(386,855)
Net deferred tax liability	$ (44,161)	$ (46,221)

* *Described below*

We currently provide a valuation allowance against deferred tax assets when it is more likely than not that some portion, or all, of our deferred tax assets will not be realized. We have maintained a full valuation allowance against any remaining deferred tax asset in the U.S. and Ireland, given our inability to rely on future taxable income tax projections and the scheduling of our current deferred tax liabilities. Our valuation allowance decreased by approximately $59.5 million during the year ended December 31, 2010, to $327.3 million.

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

At December 31, 2009, we had total unrecognized tax benefits (excluding interest and penalties) of $132.2 million, the recognition of which would result in a $20.6 million tax benefit at the effective tax rate. In 2009, the statute of limitations expired for the 2006 U.S. federal income tax year, which resulted in a reduction of our unrecognized tax benefits in the amount of $15.3 million. At December 31, 2010, we had total unrecognized tax benefits (excluding interest and penalties) of $111.3 million, the recognition of which would result in a $3.5 million tax benefit at the effective tax rate.

As a result of a 2010 U.S. tax court ruling relating to an unaffiliated third party (Container Corporation v. Commissioner, 134 T.C. 5 (2010)), we reconsidered our position in respect of an uncertain tax position and evaluated the implications of the ruling in accordance with FASB ASC 740-10. Due to this ruling, we released a tax liability of $35.9 million (inclusive of interest and penalties) in the first quarter of 2010.

The following is a roll-forward of our FASB ASC 740-10 unrecognized tax benefits for the years ended December 31, 2010 and 2009:

15. Income Taxes (continued)

(U.S. dollars in thousands)	Year Ended December 31, 2010	Year Ended December 31, 2009
Total unrecognized tax benefits at beginning of year	$ 132,247	$ 167,864
Gross amount of decreases for prior year's tax position	(17,887)	(22,000)
Gross amount of increases for current year's tax position	828	1,737
Reductions due to lapse of statutes of limitation	(3,922)	(15,354)
Total unrecognized tax benefits at end of year	111,266	132,247
Tax benefit of unrecognized tax benefits if recognized at the effective tax rate	$ 3,522	$ 20,639

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

(U.S. dollars in thousands)	December 31, 2010	December 31, 2009	December 31, 2008
Total interest & penalties in the Consolidated Balance Sheets at beginning of year	$ 19,442	$ 16,640	$ 13,281
Total interest and penalties in the Consolidated Statements of Income (Loss)	(16,496)	2,802	3,359
Total interest & penalties in the Consolidated Balance Sheets at end of year	$ 2,946	$ 19,442	$ 16,640

It is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur in the next 12 months. The unrecognized tax benefits are estimated to decrease by $95.6 million in 2011 as a result of additional statutes of limitations expiring.

We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. As of December 31, 2010, we remained subject to examination in the following major tax jurisdictions for the years indicated in the table below:

Major Tax Jurisdictions	Open Years
U.S.	
Life Group	2007 through 2010
Non-Life Group	2007 through 2010
Ireland	2006 through 2010

Net operating losses are being carried forward from closed years and could be examined by the Internal Revenue Service when utilized in an open year in the future. Additionally, to the extent that a net operating loss has been carried back to an otherwise closed year, that earlier year could be subject to examination as long as the loss year remains open. Refer to Note 23, "Subsequent Events" for information regarding an Internal Revenue Service examination.

16. Earnings per Ordinary Share

The following table sets forth the computation of basic and diluted earnings per ordinary share under the two-class method and the if-converted method, respectively, as required under FASB ASC 260.

(U.S. dollars in thousands, except share data)	December 31, 2010	December 31, 2009	December 31, 2008
Basic income (loss) from continuing operations attributable to ordinary shareholders			
Numerator:			
Net income (loss) attributable to ordinary shareholders	$ 239,089	$ 2,305,341	$ (2,667,316)
Amounts allocable to convertible cumulative participating preferred shares	(3,446)	(33,226)	-
Numerator for basic income (loss) from continuing operations per ordinary share	$ 235,643	$ 2,272,115	$ (2,667,316)
Denominator:			
Denominator for basic income (loss) per ordinary share - weighted average number of ordinary shares	68,383,370	68,383,370	68,383,370
Basic income (loss) from continuing operations attributable to ordinary shareholders	$ 3.45	$ 33.23	$ (39.00)
Diluted income (loss) attributable to ordinary shareholders			
Numerator:			
Net income (loss) attributable to ordinary shareholders	$ 239,089	$ 2,305,341	$ (2,667,316)
Denominator:			
Denominator for basic income (loss) per ordinary share - weighted average number of ordinary shares	68,383,370	68,383,370	68,383,370
Effect of dilutive securities*	150,000,000	150,000,000	-
Denominator for dilutive income (loss) per ordinary share	218,383,370	218,383,370	68,383,370
Diluted income (loss) from continuing operations attributable to ordinary shareholders	$ 1.09	$ 10.56	$ (39.00)

* In accordance with FASB ASC 260, exercise of options and warrants or conversion of convertible securities is not assumed if the result would be anti-dilutive, such as when a loss from continuing operations is reported, or the exercise price of the options exceeds the market price of common stock. The conversion of the Convertible Cumulative Participating Preferred Shares has a potential dilutive effect and is included in the 2010 and 2009 dilutive net income attributable to ordinary shareholder calculations. Due to the net loss incurred in 2008, the conversion of the Convertible Cumulative Participating Preferred Shares is not included in the calculations due to their anti-dilutive effect.

17. Quarterly Financial Data (Unaudited)

Quarterly financial data for the year ended December 31, 2010 was as follows:

	Quarter Ended			
	December 31, 2010	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**
(U.S. dollars in thousands, except share data)				
Total revenue	$ 138,076	$ 226,500	$ 231,341	$ 231,311
Income (loss) from continuing operations before income taxes and noncontrolling interest	$ (19,884)	$ 80,571	$ 74,520	$ 63,395
Income tax benefit (expense)	$ (1,504)	$ 3,016	$ 35	$ 36,394
Net income (loss) attributable to ordinary shareholders	$ (20,846)	$ 82,406	$ 77,982	$ 99,549
Basic income (loss) per ordinary share	$ (0.29)	$ 1.19	$ 1.12	$ 1.43
Diluted income (loss) per ordinary share	$ (0.11)	$ 0.38	$ 0.36	$ 0.46

Quarterly financial data for the year ended December 31, 2009 was as follows:

	Quarter Ended			
	December 31, 2009	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**
(U.S. dollars in thousands, except share data)				
Total revenue	$ 436,555	$ 352,875	$ 317,815	$ 1,518,609
Income from continuing operations before income taxes and noncontrolling interest	$ 261,025	$ 203,850	$ 178,434	$ 1,712,265
Income tax benefit (expense)	$ 3,470	$ (1,050)	$ (1,009)	$ (50,942)
Net income attributable to ordinary shareholders	$ 264,994	$ 201,890	$ 176,874	$ 1,661,583
Basic income per ordinary share	$ 3.82	$ 2.91	$ 2.55	$ 23.95
Diluted income per ordinary share	$ 1.22	$ 0.92	$ 0.81	$ 7.61

18. Rating Agency Matters

Our financial strength ratings and the financial strength ratings of our subsidiaries were lowered on several occasions since 2007. Ratings at such levels also previously triggered the vesting of contractual recapture rights in respect of certain of our reinsurance business and resulted in the increase to a maximum “stepped up” rate of certain guarantor fees in respect of the securitization structures used to finance the Regulation XXX statutory reserve requirements associated with business ceded by SRUS to each of Orkney Re and Orkney Re II. In light of the foregoing and our pursuit of a run-off strategy for our remaining business, among other factors, we determined that we no longer would utilize capital for the payment of ratings fees to maintain the financial strength and other ratings for us and our operating subsidiaries at such levels. Accordingly, we notified each of the rating agencies in 2009 that we no longer will be compensating the agencies for their maintenance of such ratings.

Following this communication, on June 4, 2009, Standard & Poor’s Corporation (“S&P”), affirmed and then subsequently withdrew the “CC” counterparty credit rating of SRGL, the “C” rating of SRGL’s Perpetual Preferred Shares, and the “CCC-” counterparty credit and financial strength ratings of SALIC. At the same time, S&P affirmed and then withdrew the “R” counterparty credit and financial strength ratings of SRUS, the “CCC” counterparty credit and financial strength ratings of Scottish Re Life Corporation and the “CCC-” senior secured

18. Rating Agency Matters (continued)

rating of the Pass-Through Certificates.

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

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

On August 18, 2009, Moody's downgraded the insurance financial strength ratings of SALIC to "Ca" from "C" and SRUS to "Ba3" from "Ba1", before withdrawing both ratings. At the same time, Moody's downgraded to "Ca" from "C" and then withdrew the senior secured rating of the Pass-Through Certificates and our preferred stock rating.

19. Commitments and Contingencies

Class Action and Shareholder Derivative Lawsuits

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

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

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

Indemnification

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

19. Commitments and Contingencies (continued)

approximately $285 million, after giving effect to these corrections.

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

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

Pursuant to the Agreement with MassMutual Capital and Cerberus, we made certain representations and warranties regarding the statutory financial statements of each of our insurance subsidiaries, including SRD and SRUS, for the years ended 2003, 2004, and 2005 and, with respect to SRUS but not SRD, the first three quarters of 2006, including that these statements were prepared in conformity with applicable statutory accounting practices and fairly present, in accordance with such practices and in all material respects, the statutory financial condition of the relevant insurance subsidiary at the respective dates. In light of our discovery of the corrections described above, we notified MassMutual Capital and Cerberus, as required by the terms of the Agreement, of the misstatement of reported statutory surplus in SRD at year-end 2004 and year-end 2005 resulting in a cumulative overstatement for the two year period at year-end 2005 of approximately $70 million on an after-tax basis, and the understatement of statutory surplus in SRUS for the year ended December 31, 2005 of approximately $14.5 million on an after-tax basis. On November 16, 2007, MassMutual Capital and Cerberus responded by notifying us of their concern that the corrections described above may constitute breaches of certain of the representations and warranties made by us in the Agreement. Under the Agreement, in the event of a claim for losses resulting from a diminution in value, such losses would be determined by an independent investment banking firm of national reputation, agreed upon by us and MassMutual Capital and Cerberus, based on changes in the valuation of SRGL using the assumptions and models used by MassMutual Capital and Cerberus at the time of their decision to invest in us. Furthermore, should any claim for indemnification be made by MassMutual Capital and Cerberus, the Agreement provides that any decision regarding defending or settling such claim will be taken by a committee of independent directors of our Board. In their November 16, 2007 correspondence, MassMutual Capital and Cerberus requested that we convene a committee of independent directors. No action has since been taken by us or MassMutual Capital and Cerberus in respect of this claim. At this time, we do not know what the amount of any indemnifiable losses would be, if any, or what potential defenses or other limitations on indemnification may be available to us under those circumstances. The Agreement provides that any indemnification claim would be satisfied by adjusting the conversion amount at which the Convertible Cumulative Participating Preferred Shares issued to MassMutual Capital and Cerberus are convertible into our Ordinary Shares. Refer to Note 23, “Subsequent Events” for information regarding a Merger Agreement.

Lease Commitments

We lease office space in the countries in which we conduct business under operating leases that expire at various dates through 2016. Total rent expense with respect to these operating leases for the years ended December 31, 2010, 2009, and 2008 was approximately $1.2 million, $1.4 million, and $2.7 million, respectively. The operating lease for our former Denver office was sold as part of the sale of the Acquired Business to Hannover Re in 2009. At December 31, 2010, we held operating leases for our offices in Charlotte, North Carolina, United States; Dublin, Ireland; and Hamilton, Bermuda.

19. Commitments and Contingencies (continued)

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

(U.S. dollars in thousands) Year ending December 31,	Gross Lease Payments	Sublease Rentals	Net Lease Payments
2011	$ 1,899.2	$ (1,215.3)	$ 683.9
2012	1,466.8	(735.3)	731.5
2013	1,256.0	(585.2)	670.8
2014	1,293.7	(602.8)	690.9
2015	1,332.5	(620.9)	711.6
Thereafter	1,372.5	(639.5)	733.0
Total future lease commitments	$ 8,620.7	$ (4,399.0)	$ 4,221.7

Concentrations of Credit Risk

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

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

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

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. Refer to Note 23, “Subsequent Events” for a discussion of a dispute filed by a former officer and director regarding indemnification.

20. Statutory Requirements and Dividend Restrictions

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

20. Statutory Requirements and Dividend Restrictions (Continued)

certain intangible assets, establish reserves for invested assets, and calculate benefit reserves by a defined formulaic process.

Statutory Requirements for Non U.S. Subsidiaries

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

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

SRD is required by the Central Bank of Ireland (the "Central Bank") to maintain a minimum level of paid up share capital. The Central Bank has put certain restrictions in place on the ability of SRD to make dividend payments from profits available for distribution within the meaning of the Companies (Amendment) Act, 1983. On July 15, 2006, Statutory Instrument 380 ("SI 380") of 2006 transposed into Irish law European Union Council Directive 2005/68/EC. The Directive establishes a regulatory regime for reinsurance organizations and defines minimum requirements for certain liabilities, assets backing these liabilities and surplus. At December 31, 2010 and 2009, SRD had a solvency margin of 191% and 211%, respectively. These percentages are based on the available capital versus the Minimum Guaranteed Fund, which is required to be held under Schedule 2 of SI 380.

SALIC is a party to a net worth maintenance agreement with SRD, pursuant to which SALIC effectively guarantees SRD's regulatory solvency. In the fourth quarter of 2008, Irish Financial Services Regulatory Authority (replaced in 2010 by the Central Bank) notified the Company that corrective action needed to be taken with respect to SRD's solvency calculations primarily as a result of market value degradation in respect of the assets SRD held to support business ceded to it from SRUS and other of its affiliates. In response, the Company effectuated a transfer of a majority of its business in SRD to SALIC, effective October 1, 2008. SALIC, in return, received modified coinsurance assets with respect to business associated with the ING Companies originally ceded to SRD and the residual interests in reserve credit trust assets with respect to business originally ceded from SRUS to SRD. A significant portion of the business transferred from SRD to SALIC was included in the Acquired Business sold to Hannover Re. In connection with the closing of the transactions contemplated by the Purchase Agreement with Hannover Re, the remaining business at SRD was recaptured from SRD or transferred to SALIC. Effective October 1, 2009, SRD entered into a reinsurance agreement with SRUS pursuant to which SRD has reinsured from SRUS the liabilities related to a certain block of reinsurance business previously ceded by SRUS to SRD prior to the October 1, 2008 transfer.

Statutory Requirements for U.S. Subsidiaries

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

20. Statutory Requirements and Dividend Restrictions (Continued)

surplus. The applicable statutory provisions only permit an insurer to pay a shareholder dividend from unassigned surplus. SRUS, SRLC, and Orkney Re cannot pay dividends in 2011 without prior approval of the Commissioner. In connection with SRUS's receipt of the Permitted Practice and entry into the Amended Order SRUS has agreed to limitations on its ability to pay dividends, which limitations are more restrictive than those generally prescribed by the Department.

The following table presents, for each of our U.S. reinsurance subsidiaries, the statutory capital and surplus as of December 31, 2010 and 2009, and the statutory net earned income (loss) for the years ended December 31, 2010, 2009, and 2008, as reflected in each company's most recent statutory financial statement filings with applicable insurance regulators.

	Statutory Capital & Surplus		**Statutory Net Earned Income (Loss)**		
(U.S. dollars in thousands)	**2010**	**2009**	**2010**	**2009**	**2008**
SRUS	$ 292,318	$ 235,656	$ 49,397	$ 119,134	$ (125,301)
SRLC	$ 68,483	$ 72,808	$ (7,396)	$ (4,102)	$ (19,405)
Orkney Re	$ 874,706	$ 912,852	$ 22,194	$ 14,116	$ (185,630)

The company action level RBC percentage at December 31, 2010, as filed with insurance regulators on February 28, 2010, for SRUS, SRLC, and Orkney Re was 465.8%, 292.0%, and 2,078.4%, respectively. The 2010 U.S. statutory filings are subject to audit and, consequently, may be subject to adjustments.

SRUS

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

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

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

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

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

20. Statutory Requirements and Dividend Restrictions (Continued)

2. The current fair market value of cash and Eligible Securities held in the applicable Trust Account is not less than the specific obligations related to such Trust Account calculated using the Commissioners Standard Ordinary mortality basis (2001 CSO); and

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

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

A reconciliation of net income (loss) and capital and surplus determined in accordance with the AP&P Manual (the "NAIC basis") and the amounts determined in accordance with the Delaware basis as of and for the years ended December 31, 2010 and 2009 follows:

	December 31, 2010	
(U.S. dollars in thousands)	**Statutory Net Earned Income (Loss)**	**Statutory Capital & Surplus**
Financial statements - NAIC basis	$ 49,397	$ 221,876
Permitted increase in reserve credit	-	70,442
Financial statements – Delaware basis	$ 49,397	$ 292,318

	December 31, 2009	
(U.S. dollars in thousands)	**Statutory Net Earned Income (Loss)**	**Statutory Capital & Surplus**
Financial statements - NAIC basis	$ 119,134	$ 83,088
Permitted increase in reserve credit	-	152,568
Financial statements – Delaware basis	$ 119,134	$ 235,656

SRLC

SRLC did not utilize any permitted accounting practices during the years ended December 31, 2010 and 2009.

Orkney Re

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

A reconciliation of net income (loss) and capital and surplus (deficit) determined under the NAIC basis and the amounts determined under the Delaware basis as of and the years ended December 31, 2010 and 2009 follows:

20. Statutory Requirements and Dividend Restrictions (Continued)

(U.S. dollars in thousands)	December 31, 2010 Statutory Net Earned Income (Loss)	December 31, 2010 Statutory Capital & Surplus (Deficit)
Financial statements - NAIC basis	$ (18,094)	$ (56,479)
Permitted valuation basis adjustment	40,288	931,185
Financial statements – Delaware basis	$ 22,194	$ 874,706

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

Orkney Re – Intent and Ability to Hold its Investments

In the fourth quarter of 2010, Orkney Re changed its intent to hold its investments for a period of time sufficient to recover the statutory accounting amortized cost values of its investments. This change in intent caused Orkney Re to record other-than temporary impairments (“OTTIs”) of approximately $115 million, which represented the difference between the amortized cost values and the fair values of Orkney Re’s investments. Orkney Re recorded the OTTIs as realized losses in its statutory accounting basis financial statements for the nine months ended September 30, 2010, but this change in intent and the resulting statutory basis losses did not affect our consolidated financial statements or the results of our operations because the investments were classified as held for trading and were already carried at fair value in our consolidated financial statements.

21. Related Party Transactions

In connection with the 2007 New Capital Transaction on May 7, 2007, MassMutual Capital and Cerberus hold in the aggregate approximately 68.7% of our equity voting power at December 31, 2010, along with the right to designate two-thirds of the members of our Board. Refer to Note 23, “Subsequent Events” for information regarding a Merger Agreement.

We incurred $38,238 for legal fees and consulting fees associated with Cerberus for the year ended December 31, 2009. We did not incur any such fees associated with Cerberus in 2010.

For the years ended December 31, 2010, 2009, and 2008, we had premiums earned of $15.7 million, $15.1 million, and $118.1 million, respectively, associated with MassMutual Capital. As of December 31, 2010, we had a net receivable from MassMutual Capital of $3.3 million (as compared to a net payable of $9.6 million as of December, 31 2009).

We incurred $17,000, $15,000, and $244,000 for Board fees payable to Babson Capital Management LLC, a subsidiary of MassMutual Capital, for the years ended December 31, 2010, 2009, and 2008, respectively.

We also incurred $2.5 million and $0.4 million for investment management fees payable to Babson Capital Management LLC for the years ended December 31, 2010 and 2009, respectively. Babson Capital Management

21. Related Party Transactions (Continued)

LLC was appointed in the fourth quarter of 2009 as investment manager for all our invested assets, excluding investments held in securitization structures and certain company-directed investments.

For as long as the Cypress Entities in the aggregate beneficially own at least 2.5% of our outstanding voting shares on a fully-diluted basis, they will be entitled to designate at least one individual for election to the Board. The Cypress Entities owned collectively 4.3% of our outstanding voting shares on a fully-diluted basis as at December 31, 2010 and 2009, and have a representative on the Board.

Included in Other Investments in the Consolidated Balance Sheets at December 31, 2009 were \$3.7 million of investment in Cypress Sharpridge Investments, Inc., which is an affiliate of the Cypress Entities. During 2010, we sold all of these investments and no longer hold any investments in Cypress Sharpridge Investments, Inc at December 31, 2010. During the years ended December 31, 2010, 2009, and 2008, we received \$0.4 million, \$0.7 million, and \$0.4 million in dividend income, respectively, from our investment in Cypress Sharpridge Investments, Inc. Furthermore, included in Fixed-Maturity Investments at December 31, 2010 and 2009 were \$2.0 million and \$8.8 million, respectively, of bonds issued by MassMutual or affiliates of MassMutual. We received \$0.1 million in interest income in each of the years ended December 31, 2010, 2009, and 2008, respectively, on the bonds issued by MassMutual and its affiliates.

As disclosed in Note 9, "Collateral Finance Facilities and Securitization Structures-*Related Party Acquisition of Orkney Notes*", Cerberus acquired from one or more unaffiliated third parties \$700 million in aggregate principal amount of the Orkney Notes in 2009, and such amounts are still held at December 31, 2010. Orkney I paid interest amounts of \$6.2 million and \$4.4 million on the Orkney Notes that are owned by Cerberus for the years ended December 31, 2010 and 2009, respectively. Refer to Note 23, "Subsequent Events" for information regarding an Orkney I Unwind Transaction.

22. Discontinued Operations

Disposal of Wealth Management Business

On July 11, 2008, the sale of the Wealth Management business closed with respect to Scottish Annuity & Life Insurance Company (Bermuda) Ltd. and Scottish Annuity & Life International Insurance Company (Bermuda) Ltd., and on August 5, 2008, the transaction closed with respect to The Scottish Annuity Company (Cayman) Ltd. We generated proceeds of \$9.3 million and recognized a net loss of \$4.9 million on this sale.

Disposal of Life Reinsurance International Segment

On July 18, 2008, Pacific Life Insurance Company concluded the purchase of Scottish Re Holdings Limited and the U.K. portion of the Life Reinsurance International Segment for \$67.1 million after purchase price adjustments of \$4.1 million. The purchase of the Asia portion of the Life Reinsurance International Segment was completed on August 20, 2008, for an additional payment by Pacific Life Insurance Company of \$0.5 million. We recorded an aggregate loss of \$31 million on these transactions in the year ended December 31, 2008. Pre-sale, the Life Reinsurance International Segment incurred a loss from operations of approximately \$7 million. Additionally, in March 2009, the Singapore branch was closed, and \$6.1 million of capital was returned to SALIC.

The discontinued operations affected the 2008 consolidated financial statements. There were no discontinued operations in 2010 and 2009.

23. Subsequent Events

The subsequent events disclosed in these notes to the consolidated financial statements have been evaluated by Company management up to and including the filing of the financial statements on April 15, 2011.

Permitted Practice and Amended Order of Supervision

In recognition of SRUS' demonstrated financial improvement since consenting to the Amended Order in 2009, by letters dated March 1, 2011 and April 1, 2011, SRUS requested that the Department rescind the Amended Order and, in connection therewith, notified the Department of SRUS' intention to discontinue utilization of the Permitted Practice, effective with a rescission of the Amended Order. Without utilization of the Permitted Practice at December 31, 2010, SRUS' statutory capital and surplus would have been $222 million (compared to $292 million with the Permitted Practice) and its company action level RBC would have been 353% (compared to 466% with the Permitted Practice).

As of April 15, 2011, the Department has not completed its review of SRUS' requests.

Merger Agreement

On April 15, 2011, we entered into an agreement and plan of merger (the "Merger Agreement") with affiliates of our controlling shareholders, Cerberus and MassMutual Capital (together, the "Investors"), pursuant to which an affiliate of the Investors will be merged into SRGL and SRGL will continue as the surviving entity. Under the plan of merger, all Ordinary Shares (other than Ordinary Shares held by shareholders that properly exercise appraisal rights under the laws of the Cayman Islands and Ordinary Shares held by the Investors or affiliates of the Investors) will be converted into the right to receive $0.30 per share, which represents a premium of $0.14 (or 87.5%) over the average trading price of the Ordinary Shares over the past three months (collectively, the "Merger"). The Merger consideration to the Ordinary Shares, which is expected to be approximately $21 million in aggregate, will be funded solely by the Investors. Following the effectiveness of the Merger, all of the outstanding Ordinary Shares of SRGL will be owned by affiliates of the Investors. The Convertible Cumulative Participating Preferred Shares and the Perpetual Preferred Shares will be unaffected by the Merger and remain outstanding. Under the terms of the Registration Rights and Shareholders Agreement, dated May 2007 among the Company, MassMutual Capital, Cerberus and certain other shareholders (the "Shareholders Agreement"), any agreement for the Company to merge with the Investors or an affiliate of the Investors requires the prior approval of a majority of disinterested directors of our Board. To this end, a special committee of the Board, comprised of disinterested directors, was appointed to consider, and determine whether to recommend to the full Board that the Company should engage in, the Merger Agreement. In its evaluation and approval of the Merger and related agreements, the special committee engaged separate legal counsel and a separate financial advisor.

Completion of the Merger is subject to a number of conditions, including (a) approval by shareholders of SRGL, including a majority of the Ordinary Shares held by non-affiliates attending and voting at the shareholders meeting (whether in person or by proxy) and (b) receipt of required governmental consents and approvals. Consummation of the Orkney I Unwind Transaction described below is not a condition to the completion of the Merger. One of the conditions to SRGL's obligation to complete the Merger is the release by the Investors of their indemnification claim against SRGL arising from alleged breaches of representations and warranties made by SRGL in the Securities Purchase Agreement dated as of November 26, 2006. Refer to Note 19, "Commitments and Contingencies-*Indemnification*".

The Merger Agreement permits SRGL to solicit, receive, evaluate and enter into negotiations with respect to alternative proposals for a 45 day "go-shop" period beginning April 15, 2011. The special committee, with the assistance of its independent advisors, will solicit alternative proposals for the acquisition of the Ordinary Shares during this period. The Merger Agreement also provides the Investors with a customary right to match a superior proposal. There can be no assurance, however, that this process will result in a superior proposal.

23. Subsequent Events (Continued)

SRGL will be preparing and sending to shareholders in connection with the shareholders meeting an information statement containing more detailed information regarding the Merger. Assuming satisfaction of the conditions to closing, the Merger is expected to close in the second quarter of 2011. No assurances can be given that the conditions to closing will be satisfied and the Merger consummated.

Orkney I Unwind Transaction

On April 15, 2011, we entered into agreements to unwind the Orkney I transaction and to recapture from Orkney Re and immediately cede to Hannover Life Re the defined block of level premium term life insurance policies issued by direct ceding companies between January 1, 2000 and December 31, 2003 (such defined block, the "Orkney Block", and such transactions, as further discussed below, the "Orkney I Unwind Transaction"). The Orkney I Unwind Transaction will be accomplished in part pursuant to the Settlement and Release Agreement, dated as of April 15, 2011, by and among Orkney Re, OHL, SRUS, SRGL, MBIA, and the investment manager for the Orkney I transaction (the "Settlement Agreement"). Contemporaneous with the transactions contemplated by the Settlement Agreement, SRUS will recapture the Orkney Block from Orkney Re (the "Orkney Recapture") and immediately will cede the Orkney Block to Hannover Life Re pursuant to a coinsurance reinsurance agreement, effective January 1, 2011 (the "New Reinsurance Agreement").

On the date of closing of these transactions, SRUS would effect the Orkney Recapture and receive recapture consideration from Orkney Re, which recapture consideration will be used in part to fund the ceding commission of $565 million due from SRUS to Hannover Life Re under the New Reinsurance Agreement. Any assets thereafter remaining in the accounts at Orkney Re will be released to OHL. Such remaining assets will be used by OHL to purchase all of the outstanding Orkney Notes pursuant to privately negotiated purchase agreements (the "Note Purchase Agreements") for an aggregate amount of $590 million, which represents a discount to the aggregate principal amount of $850 million of the Orkney Notes outstanding. Once repurchased, the Orkney Notes will be cancelled, and OHL will pay a dividend of any remaining assets to its parent, SRUS.

Approximately $700 million of the aggregate principal amount of the Orkney Notes to be purchased are held by affiliates of Cerberus, one of our controlling shareholders. As discussed in Note 9, "Collateral Finance Facilities and Securitization Structures-*Related Party Acquisition of Orkney Notes*", Cerberus previously informed the Company that Cerberus had acquired the Orkney Notes in the secondary market during 2009. None of the Company, SRUS, OHL, Orkney Re, or any of our other subsidiaries was a party to this purchase. Under the terms of the Shareholders Agreement, the Company's execution of the Note Purchase Agreement with Cerberus requires the prior approval of the independent directors of our Board. To this end, a special committee of our Board, comprised of disinterested directors, was appointed to consider, and determine whether the Company should engage in, the Orkney I Unwind Transaction. In its evaluation and approval of the Orkney I Unwind Transaction and related agreements, including the Note Purchase Agreement with Cerberus, the special committee engaged separate legal counsel and a separate financial advisor.

The closing of the Orkney I Unwind Transaction, which is expected to occur in the second quarter of 2011, is subject to a number of closing conditions, including the receipt of required regulatory approvals. Consummation of the Merger described above is not one of the closing conditions. No assurances can be given that the conditions to closing will be satisfied and the Orkney I Unwind Transaction consummated.

In the event the Orkney I Unwind Transaction is consummated, SRGL's consolidated assets as of December 31, 2010 would decrease by approximately $1,014 million, its consolidated liabilities would decrease by approximately $865 million, and SRGL would record a consolidated net loss of approximately $149 million in the period in which the transaction closes.

The Orkney I Unwind Transaction is consistent with our runoff strategy of reducing our reinsurance obligations and simplifying the operations of the Company. The transaction also strengthens SRUS' statutory capital and

23. Subsequent Events (Continued)

surplus and further positions it for removal of the Amended Order. The Orkney I Unwind Transaction is expected to positively impact SRUS' statutory capital and surplus for the year ended December 31, 2011.

French vs. Scottish Re

On December 1, 2010, Michael C. French, a former officer and director of the Company, filed a civil lawsuit against the Company, SRUS, and SRLC in the District Court for Dallas County, Texas. The lawsuit brings a claim for breach of contract based on Mr. French's alleged right to indemnification for defense costs he is incurring in connection with a Securities and Exchange Commission enforcement action brought against him in New York federal court. On January 3, 2011, we removed the case to the U.S. District Court for the Northern District of Texas. On January 10, 2011, we moved to dismiss the action for lack of personal jurisdiction as to all of the Company, SRUS and SRLC and for failure to state a claim against SRUS and SRLC. In the alternative, we requested that the case be transferred to the U.S. District Court for the Southern District of New York. Our motion is fully briefed and is still pending before the court. We believe Mr. French's claim to be without merit and are vigorously defending our interest in the action.

Internal Revenue Service Examination

On March 30, 2011, SRUS was notified that the Internal Revenue Service will perform a limited scope examination of our consolidated U.S. life insurance tax returns for 2004, 2007, 2008, and 2009.

Non-declaration of Dividends on Perpetual Preferred Shares

In accordance with the terms of the Perpetual Preferred Shares Certificate of Designations, the Board exercised its discretion and determined not to declare and pay dividends on the Perpetual Preferred Shares on the April 15, 2011 dividend payment date, even though the financial tests were met in the fourth quarter of 2010 to declare and pay such dividend.

Orkney Re II

On the scheduled interest payment date of February 11, 2011, Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes. As a result, Assured made guarantee payments on the Series A-1 Notes in the amount of $0.7 million.

Deferral of Interest Payments on the Capital and Trust Preferred Securities

Subsequent to December 31, 2010, we have accrued and deferred payment of an additional $1.7 million of interest on our floating rate capital securities and trust preferred securities. As of April 15, 2011, we have accrued and deferred payment on a total of $13.1 million of interest.