SCOTTISH RE GROUP LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

(These consolidated financial statements are unaudited.)

Table of Contents

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

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Assets		
Fixed-maturity investments held as trading securities, at fair value	$ 2,000,657	$ 1,967,689
Preferred stock held as trading securities, at fair value	2,594	58,529
Cash and cash equivalents	266,006	282,028
Other investments	28,234	14,877
Funds withheld at interest	519,638	549,333
Total investments[1]	2,817,129	2,872,456
Accrued interest receivable[2]	15,871	16,757
Reinsurance balances receivable	134,402	120,976
Deferred acquisition costs	166,786	173,254
Amounts recoverable from reinsurers	749,692	749,034
Present value of in-force business	25,071	27,027
Other assets	8,030	8,771
Total assets	$ 3,916,981	$ 3,968,275
Liabilities		
Reserves for future policy benefits	$ 1,377,326	$ 1,354,140
Interest-sensitive contract liabilities	1,231,254	1,301,511
Collateral finance facility[3]	450,000	450,000
Accounts payable and other liabilities	71,490	64,426
Embedded derivative liabilities, at fair value	30,190	33,758
Reinsurance balances payable	69,503	93,244
Deferred tax liabilities	41,857	45,223
Long-term debt, at par value	129,500	129,500
Total liabilities	3,401,120	3,471,802
Mezzanine Equity		
Convertible cumulative participating preferred shares, par value $0.01; 1,000,000 shares issued and outstanding with $600.0 million initial stated value (liquidation preference: 2012 - $835.1 million; 2011 - $802.8 million)	555,857	555,857
Shareholders' Deficit		
Ordinary shares, par value $0.01; 68,383,370 shares issued and outstanding	684	684
Non-cumulative perpetual preferred shares, par value $0.01: Shares issued and outstanding: 2012 – 3,246,776; 2011 – 4,806,083)	81,169	120,152
Additional paid-in capital	1,218,190	1,218,190
Retained deficit	(1,348,615)	(1,407,269)
Total Scottish Re Group Limited shareholders' deficit	(48,572)	(68,243)
Noncontrolling interest	8,576	8,859
Total shareholders' deficit	(39,996)	(59,384)
Total liabilities, mezzanine equity, and total shareholders' deficit	$ 3,916,981	$ 3,968,275

[1] Includes total investments of consolidated variable interest entity ("VIE")	$ 289,048	$ 282,429
[2] Includes accrued interest receivable of consolidated VIE	515	455
[3] Reflects collateral finance facility of consolidated VIE	450,000	450,000

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

SCOTTISH RE GROUP LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(Expressed in Thousands of United States Dollars)

	Three month period ended		Nine month period ended	
	September 30, 2012	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Revenues				
Premiums earned, net	$ 82,414	$ 67,059	$ 232,579	$ 209,701
Investment income, net	27,762	32,390	85,399	106,193
Net realized and unrealized gains (losses)	60,203	(15,276)	94,297	9,726
Gain on extinguishment of Orkney Notes	-	-	-	260,000
Change in fair value of embedded derivative assets and liabilities	2,568	(4,559)	3,568	1,082
Fees and other income	1,293	779	3,827	3,340
Total revenues	174,240	80,393	419,670	590,042
Benefits and expenses				
Claims, policy benefits, and changes in policyholder reserves, net	89,918	84,524	289,065	256,813
Interest credited to interest-sensitive contract liabilities	9,236	11,743	30,090	36,089
Amortization of deferred acquisition costs and other insurance expenses, net	2,264	11,476	26,110	446,589
Operating expenses	8,657	9,624	24,622	33,694
Collateral finance facilities expense	2,657	2,372	7,892	22,794
Interest expense	1,665	1,518	4,796	4,640
Total benefits and expenses	114,397	121,257	382,575	800,619
Income (loss) before income taxes	59,843	(40,864)	37,095	(210,577)
Income tax (expense) benefit	(446)	(71)	8,455	10,776
Net income (loss)	59,397	(40,935)	45,550	(199,801)
Dividend declared on non-cumulative perpetual preferred shares	(1,218)	-	(1,218)	-
Gain on redemption of non-cumulative perpetual preferred shares	2	-	14,039	-
Net (income) loss attributable to noncontrolling interest	(547)	221	283	802
Net income (loss) attributable to Scottish Re Group Limited	$ 57,634	$ (40,714)	$ 58,654	$ (198,999)

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

(Expressed in Thousands of United States Dollars)

	Nine month period ended	
	September 30, 2012	**September 30, 2011**
Share capital:		
Ordinary shares:		
Beginning and end of period	$ 684	$ 684
Non-cumulative perpetual preferred shares:		
Beginning of period	120,152	120,152
Non-cumulative perpetual preferred shares redeemed	(38,983)	-
End of period	81,169	120,152
Additional paid-in capital:		
Beginning of period	1,218,190	1,217,894
Option expense	-	296
End of period	1,218,190	1,218,190
Retained deficit:		
Beginning of period	(1,407,269)	(1,208,286)
Net income (loss) attributable to Scottish Re Group Limited	58,654	(198,999)
End of period	(1,348,615)	(1,407,285)
Total Scottish Re Group Limited shareholders' deficit	$ (48,572)	$ (68,259)
Noncontrolling interest:		
Beginning of period	8,859	9,000
Net loss attributable to noncontrolling interest	(283)	(802)
End of period	8,576	8,198
Total shareholders' deficit	$ (39,996)	$ (60,061)

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

(Expressed in Thousands of United States Dollars)

	Nine month period ended	
	September 30, 2012	**September 30, 2011**
Operating activities		
Net income (loss)	$ 45,550	$ (199,801)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net realized and unrealized gains	(94,297)	(9,726)
Changes in value of embedded derivative assets and liabilities	(3,568)	(1,082)
Amortization of deferred acquisition costs	10,387	9,813
Amortization of present value of in-force business	1,956	3,593
Amortization of deferred finance facility costs	651	10,479
Depreciation of fixed assets	126	168
Option expense	-	296
Adjustments attributed to the Orkney I Unwind Transaction:		
Gain on extinguishment of Orkney Notes	-	(260,000)
Release of deferred acquisition costs	-	83,204
Net increase in receivables and amounts recoverable from reinsurers	-	(252,388)
Changes in assets and liabilities:		
Funds withheld at interest	29,695	23,527
Accrued interest receivable	886	4,973
Reinsurance balances receivable	(13,426)	30,736
Deferred acquisition costs	(3,919)	(1,841)
Other assets	67	6,821
Reserves for future policy benefits, net of amounts recoverable from reinsurers	22,528	(38,772)
Interest-sensitive contract liabilities	(16,656)	(2,695)
Accounts payable and other liabilities, including deferred tax liabilities	2,479	(3,514)
Reinsurance balances payable	(23,741)	(7,044)
Net cash used in operating activities	(41,282)	(603,253)
Investing activities		
Purchase of fixed-maturity investments	(248,969)	(286,009)
Proceeds from sales and maturities of fixed-maturity investments	309,339	1,360,865
Purchase of and proceeds from sales and maturities of preferred stock, net	56,900	8,239
Purchase of and proceeds from other investments, net	(12,911)	1,731
Proceeds from sale of fixed investments	-	153
Net cash provided by investing activities	104,359	1,084,979
Financing activities		
Redemption of collateral finance facilities	-	(590,000)
Withdrawals from interest-sensitive contract liabilities	(54,155)	(81,093)
Deemed capitalization of Merger Sub by Investors prior to Merger	-	17,647
Payment of Merger consideration by Investors on behalf of Merger Sub	-	(17,647)
Redemption of non-cumulative perpetual preferred shares	(24,944)	-
Net cash used in financing activities	(79,099)	(671,093)
Net change in cash and cash equivalents	$ (16,022)	$ (189,367)
Cash and cash equivalents, beginning of period	282,028	417,722
Cash and cash equivalents, end of period	$ 266,006	$ 228,355

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

1. Organization, Run-Off Strategy and Business

Organization

Scottish Re Group Limited ("SRGL" and, together with SRGL's consolidated subsidiaries and VIE, 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. As of September 30, 2012, we have principal operating companies, holding companies, financing companies, and a collateral finance facility in Bermuda, the Cayman Islands, Ireland, Luxembourg, and the United States of America, as follows:

Bermuda
Scottish Re Life (Bermuda) Limited

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

Ireland
Scottish Re (Dublin) Limited
Orkney Re II plc ("Orkney Re II" or "VIE")

Luxembourg
Scottish Financial (Luxembourg) S.á.r.l. ("SFL")
Scottish Holdings (Luxembourg) S.á.r.l.

United States of America ("U.S.")
Scottish Holdings, Inc. ("SHI")
Scottish Re (U.S.), Inc. ("SRUS")
Scottish Re Life Corporation

On August 24, 2011, we completed a merger with an affiliate of our controlling shareholders (as defined and explained in Note 11, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares – *Merger Agreement*" in SRGL's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2011, "Merger Sub", and the "Merger"). The Merger has been treated for purposes of these consolidated financial statements as a business combination.

Run-Off Strategy

We ceased writing new business in 2008 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 will continue to receive premiums, pay claims, and perform key activities under our remaining reinsurance treaties.

While pursuing our run-off strategy, the Company has purchased from time-to-time and, if opportunities arise, may in the future continue to purchase, in privately-negotiated transactions, open market purchases, or by means of general solicitations, tender offers, or otherwise, our outstanding securities. 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 and recent transactions, refer to Note 8, "Debt Obligations and Other Funding Arrangements", and to Note 10, "Shareholders' Deficit". Further, the Company is actively evaluating strategic alternatives, including consideration of transactions for the sale or disposition of our businesses

1. Organization, Run-Off Strategy and Business (continued)

or assets, which transactions, individually or in the aggregate, may be material. On May 27, 2011, we consummated the Orkney I Unwind Transaction (as defined and explained in Note 9, "Collateral Finance Facilities and Securitization Structures", under sub-sections "*Orkney I*" and "*Orkney I Unwind Transaction*", respectively, in SRGL's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2011).

Business

As disclosed in SRGL's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2011, we have written reinsurance business that is wholly or partially retained in one or more of our reinsurance subsidiaries and have classified the reinsurance as Traditional Solutions or as Financial Solutions.

2. Basis of Presentation

Accounting Principles - Our consolidated interim financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). Accordingly, these consolidated interim financial statements do not include all of the information and notes required by U.S. GAAP for annual financial statements. These unaudited consolidated interim financial statements should be read in conjunction with SRGL's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2011.

Consolidation - The consolidated financial statements include the assets, liabilities, and results of operations of SRGL, its subsidiaries, and the VIE for which we are the primary beneficiary, as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810-10, Consolidation – Overall ("FASB ASC 810-10"). All significant intercompany transactions and balances have been eliminated in consolidation. We consolidated Merger Sub during the period in which the Merger was completed. We currently consolidate one non-recourse securitization, Orkney Re II, a special purpose VIE incorporated under the laws of Ireland.

Estimates and Assumptions - The preparation of consolidated interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates and assumptions used by management. 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.

3. Recent Accounting Pronouncements

Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04, Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU No. 2011-04"). The objective of ASU No. 2011-04 is to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards ("IFRS"). The changes set forth by ASU No. 2011-04 prohibit the application of block discounts for all fair value measurement, regardless of hierarchy level, and specify that the "valuation premise" and "highest and best use" concepts (as defined therein) are not relevant to financial instruments. New disclosures required within ASU No. 2011-04 focus on Level 3 measurements, which disclosures include quantitative information about significant unobservable inputs used for all Level 3 measurements, a qualitative discussion about the sensitivity of recurring Level 3 measurements to changes in the unobservable inputs

3. Recent Accounting Pronouncements (continued)

disclosed, and the interrelationship between inputs and a description of the valuation processes. Also required to be disclosed are any transfers between Level 1 and Level 2 within the fair value hierarchy, and the hierarchy classification for any items whose fair value is not recorded on the balance sheet but is disclosed in the notes. ASU No. 2011-04 was to be applied prospectively, effective during interim and annual periods beginning after December 15, 2011 for public companies; however, for non-public entities, the effective date is for annual periods beginning after December 15, 2011, and for interim and annual periods thereafter. We intend to adopt the provisions of ASU No. 2011-04 during the annual period ending December 31, 2012; however, we anticipate that it will have no effect on the Company's consolidated financial position and results of operations.

4. Investments

Other Investments as of December 31, 2011 represented policy loans, which are carried at the outstanding loan balances, and, as of September 30, 2012, also included investments accounted for under the equity method, in accordance with FASB 323 Investments – Equity Method and Joint Ventures, for which the resulting equity method carrying value is deemed to approximate fair value.

The portion of net unrealized gains and losses for the three month periods ended September 30, 2012 and 2011 that relates to trading securities still held at the reporting dates was $55.9 million of net unrealized gains and $16.4 million of net unrealized losses, respectively.

The portion of net unrealized gains for the nine month periods ended September 30, 2012 and 2011 that relates to trading securities still held at the reporting dates was $82.0 million and $4.4 million, respectively.

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), as described in Note 5, “Fair Value Measurements” in SRGL’s audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2011, which, along with Note 4, “Investments” above, also includes additional disclosures regarding our fair value measurements.

5. Fair Value Measurements (continued)

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

	September 30, 2012			
(U.S. dollars in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments				
Government securities	$ 36.8	$ -	$ 36.8	$ -
Corporate securities	868.2	-	779.3	88.9
Municipal bonds	49.8	-	44.4	5.4
Mortgage and asset-backed securities	1,045.9	-	623.6	422.3
Fixed-maturity investments	2,000.7	-	1,484.1	516.6
Preferred stock	2.6	-	2.6	-
Total assets at fair value	$ 2,003.3	$ -	$ 1,486.7	$ 516.6
Embedded derivative liabilities	(30.2)	-	-	(30.2)
Total liabilities at fair value	$ (30.2)	$ -	$ -	$ (30.2)

	December 31, 2011			
(U.S. dollars in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments				
Government securities	$ 33.9	$ -	$ 33.9	$ -
Corporate securities	946.7	-	862.2	84.5
Municipal bonds	51.9	-	46.4	5.5
Mortgage and asset-backed securities	935.2	-	599.4	335.8
Fixed-maturity investments	1,967.7	-	1,541.9	425.8
Preferred stock	58.5	-	8.5	50.0
Total assets at fair value	$ 2,026.2	$ -	$ 1,550.4	$ 475.8
Embedded derivative liabilities	(33.8)	-	-	(33.8)
Total liabilities at fair value	$ (33.8)	$ -	$ -	$ (33.8)

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:

5. Fair Value Measurements (continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the nine month period ended September 30, 2012

(U.S. dollars in millions)	Corporate securities	Municipal bonds	Mortgage and asset-backed securities	Preferred stock	Embedded derivative liabilities	Total
Beginning balance as of January 1, 2012	$ 84.5	$ 5.5	$ 335.8	$ 50.0	$ (33.8)	$ 442.0
Total realized and unrealized gains included in net income	0.3	-	55.6	-	3.6	59.5
Purchases	-	-	80.8	-	-	80.8
Settlements	(6.3)	(0.1)	(51.8)	(50.0)	-	(108.2)
Transfers in and/or out of Level 3, net	10.4	-	1.9	-	-	12.3
Ending balance as of September 30, 2012	$ 88.9	$ 5.4	$ 422.3	$ -	$ (30.2)	$ 486.4

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the year ended December 31, 2011

(U.S. dollars in millions)	Corporate securities	Municipal bonds	Mortgage and asset-backed securities	Preferred stock	Embedded derivative liabilities	Total
Beginning balance as of January 1, 2011	$ 128.5	$ -	$ 530.2	$ 56.0	$ (32.5)	$ 682.2
Total realized and unrealized (losses) gains included in net loss	(2.3)	1.3	(19.2)	(1.0)	(1.3)	(22.5)
Purchases	19.6	-	7.6	-	-	27.2
Settlements	(46.6)	(0.2)	(136.6)	(5.0)	-	(188.4)
Transfers in and/or out of Level 3, net	(14.7)	4.4	(46.2)	-	-	(56.5)
Ending balance as of December 31, 2011	$ 84.5	$ 5.5	$ 335.8	$ 50.0	$ (33.8)	$ 442.0

5. Fair Value Measurements (continued)

Changes in classifications impacting Level 3 assets and liabilities measured at fair value on a recurring basis are reported as transfers in (out) of the Level 3 category as of the end of the quarter in which the transfer occurs. The portion of net unrealized gains for the three month and nine month periods ended September 30, 2012 that related to Level 3 trading securities that were still held at the reporting dates was $35.6 million and $44.5 million, respectively. The portion of net unrealized losses for the three month and nine month periods ended September 30, 2011 that related to Level 3 trading securities that were still held at the reporting dates was $22.3 million and $17.5 million, respectively.

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 on a non-recurring basis, in addition to those disclosed above in Note 4, "Investments" and Note 5, "Fair Value Measurements", are described in Note 6, "Fair Value of Financial Instruments" in SRGL's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2011. The following table sets forth the fair values of our financial instruments, as of the dates indicated:

	September 30, 2012		December 31, 2011	
(U.S. dollars in thousands)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Assets				
Fixed-maturity investments	$ 2,000,657	$ 2,000,657	$ 1,967,689	$ 1,967,689
Preferred stock	2,594	2,594	58,529	58,529
Other investments	28,234	28,234	14,877	14,877
Funds withheld at interest	519,638	519,638	549,333	549,333
Liabilities				
Interest-sensitive contract liabilities	1,231,254	1,224,174	1,301,511	1,291,720
Collateral finance facility	450,000	115,781	450,000	40,451
Embedded derivative liabilities	30,190	30,190	33,758	33,758
Long-term debt, at par value	129,500	102,860	129,500	72,071

7. Collateral Finance Facility and Securitization Structure

Orkney Re II

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

7. Collateral Finance Facility and Securitization Structure (continued)

(U.S. dollars in millions)	September 30, 2012	December 31, 2011
Assets		
Funds withheld at interest	$ 353.9	$ 362.9
Cash and cash equivalents	0.9	1.2
All other assets	50.5	41.9
Total assets	$ 405.3	$ 406.0
Liabilities		
Reserves for future policy benefits	$ 134.6	$ 132.3
Collateral finance facility	450.0	450.0
All other liabilities	35.4	28.1
Total liabilities	$ 620.0	$ 610.4

The assets listed in the foregoing table were subject to a variety of restrictions on their use, as set forth in and governed by the transaction documents for the Orkney Re II collateral finance facility and securitization structure. The total investments of the consolidated VIE disclosed on the Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011, respectively, differ from the amounts shown in the above table because the assets needed to satisfy future policy benefits, based on current projections, have been deducted in the determination of the total investments of the consolidated VIE 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 the related reinsurance agreements. Under certain circumstances, such adverse mortality experience in future periods may increase the amount of assets excluded from the total investments of the consolidated VIE on the Consolidated Balance Sheets. The reinsurance liabilities of Orkney Re II have been eliminated from the Consolidated Balance Sheets because they represent intercompany transactions.

Historical information regarding the Orkney Re II collateral finance facility and securitization structure is discussed in Note 9, "Collateral Finance Facilities and Securitization Structures – *Orkney Re II*" in SRGL's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2011.

Orkney Re II Event of Default, Acceleration and Foreclosure

Orkney Re II has been unable to make scheduled interest payments on the $382.5 million aggregate principal amount of Series A-1 Floating Rate Guaranteed Notes (the "Series A-1 Notes") issued on December 21, 2005 by Orkney Re II, on all scheduled quarterly interest payment dates since May 11, 2009. As of September 30, 2012, Assured Guaranty (UK) Ltd. ("Assured") has made guarantee payments in the cumulative amount of $11.8 million on the Series A-1 Notes. This amount of cumulative interest is accrued by us in Accounts Payable and Other Liabilities on the Consolidated Balance Sheets. Interest on the Series A-1 Notes on which Assured is making guarantee payments is payable quarterly at a rate equivalent to three-month LIBOR plus 0.425% for the Series A-1 Notes. As of September 30, 2012, the interest rate on the Series A-1 Notes was 0.86% (compared to 0.87% as of December 31, 2011). For further discussion on the Orkney Re II scheduled interest payments on the Series A-1 Notes, refer to Note 14, "Subsequent Events - *Orkney Re II*".

8. Debt Obligations and Other Funding Arrangements

Long-term debt, at par value (the "Capital and Trust Preferred Securities"), is described in Note 10, "Debt Obligations and Other Funding Arrangements" in the notes accompanying SRGL's audited consolidated financial statements for the year ended December 31, 2011, and there were no changes in the balances or terms during the nine month period ended September 30, 2012. The pertinent details regarding long-term debt, at par value are shown in the following table:

(U.S. dollars in thousands)	Capital Securities Due 2032*	Preferred Trust Securities Due 2033*	Trust Preferred Securities Due 2033*	Trust Preferred Securities Due 2034*	Trust Preferred Securities Due December 2034*
Issuer of long-term debt	Capital Trust*	Capital Trust II*	GPIC Trust*	Capital Trust III*	SFL Trust I*
Long-term debt outstanding	$17,500	$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 as of September 30, 2012	4.36%	4.31%	4.26%	4.16%	3.86%
Interest rate as of December 31, 2011	4.58%	4.53%	4.48%	4.38%	4.08%
Maximum number of quarters for which interest may be deferred	20	20	20	20	20
Number of quarters for which interest has been deferred as of September 30, 2012	15	15	15	15	15

***** *Defined in the notes accompanying SRGL's audited consolidated financial statements for the year ended December 31, 2011.*

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 as permitted by the terms of the indentures governing the securities. As of September 30, 2012, we have accrued and deferred payment of $22.2 million of interest on such securities. SHI, SFL and SALIC generally are restricted in their ability to make certain dividend payments and payments in respect of obligations ranking junior or *pari passu* to the Capital and Trust Preferred Securities in any period where interest payment obligations on these securities are not current.

For discussion of Board actions taken subsequent to September 30, 2012, refer to Note 14, "Subsequent Events - *Interest Payments on the Capital and Trust Preferred Securities*".

9. Mezzanine Equity – Convertible Cumulative Participating Preferred Shares

We accounted for the Convertible Cumulative Participating Preferred Shares issued to affiliates of MassMutual Capital Partners LLC and Cerberus Capital Management, L.P. ("Cerberus") in 2007, in accordance with FASB ASC Subtopic 470-20, Debt – Debt with Conversion and Other Options ("FASB ASC 470-20"), which incorporates EITF D-98: "Classification and Measurement of Redeemable Securities". 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 $600.0 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 September 30, 2012, the amount of dividends accreted pursuant to the terms of the Convertible Cumulative Participating Preferred Shares was $235.1 million in the aggregate, or $235.14 per share. For further discussion and additional disclosures regarding the Convertible Cumulative Participating Preferred Shares, refer to Note 11, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares" in the notes accompanying SRGL's audited consolidated financial statements for the year ended December 31, 2011.

10. Shareholders' Deficit

Ordinary Shares

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

The following table summarizes the activity in the Ordinary Shares during the nine month period ended September 30, 2012 and the year ended December 31, 2011:

	Nine Month Period Ended September 30, 2012	Year Ended December 31, 2011
Ordinary shares		
Beginning of year	68,383,370	68,383,370
Ordinary Shares cancelled in connection with the Merger*	-	(68,383,370)
Ordinary Shares into which shares of Merger Sub were converted in connection with the Merger*	-	68,383,370
End of period/year	68,383,370	68,383,370

***** *Refer to Note 11, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares – Merger Agreement" in the notes accompanying SRGL's audited consolidated financial statements for the year ended December 31, 2011 for information regarding the Merger.*

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 on the Ordinary Shares 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, if dividends on the Perpetual Preferred Shares (as defined herein) have not been declared and paid (or declared and a sum sufficient for the payment thereof set aside) for the current dividend period, we generally are precluded from paying or declaring any dividend on the Ordinary Shares. Refer to Note 11, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares – *Merger Agreement*" in the notes

10. Shareholders' Deficit (continued)

accompanying SRGL's audited consolidated financial statements for the year ended December 31, 2011 for information regarding the Ordinary Shares following the completion of the Merger.

Perpetual Preferred Shares

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

In 2005, we issued 5,000,000 Non-Cumulative Perpetual Preferred Shares, par value of $0.01 per share and liquidation preference of $25.00 per share (the "Perpetual Preferred Shares"). Gross proceeds were $125.0 million, and related expenses were $4.6 million.

Dividends on the Perpetual Preferred Shares were 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. The quarterly floating rates from September 30, 2011 through September 30, 2012 ranged between 6.07% and 6.65%. During any dividend period, unless the full dividends for the current dividend period on all outstanding Perpetual Preferred Shares have been declared or paid, no dividend may be paid or declared on the Ordinary Shares and no Ordinary Shares or other junior shares may be purchased, redeemed, or otherwise acquired for consideration.

The following table summarizes the activity in our Perpetual Preferred Shares during the nine month period ended September 30, 2012 and the year ended December 31, 2011:

	Nine Month Period Ended September 30, 2012	Year Ended December 31, 2011
Perpetual Preferred Shares		
Beginning of year	4,806,083	4,806,083
Perpetual Preferred Shares redeemed	(1,559,307)	-
End of period/year	3,246,776	4,806,083

On February 10, 2012, SRGL agreed to acquire, in a privately-negotiated transaction, approximately $18.8 million in aggregate liquidation preference of its Perpetual Preferred Shares, with a liquidation preference of $25.00 per share, at a purchase price of $16.00 per share (the "Privately-Negotiated Transaction"). The Privately-Negotiated Transaction settled on February 13, 2012, and the related Perpetual Preferred Shares subsequently were redeemed by SRGL. Subsequent to the execution of the Privately-Negotiated Transaction, SRGL launched on February 10, 2012 a cash tender offer to purchase any and all of its then-outstanding Perpetual Preferred Shares (other than those acquired pursuant to the Privately-Negotiated Transaction) at the same per share price as the Privately-Negotiated Transaction (i.e., $16.00 per share). The tender offer was made to all holders of such Perpetual Preferred Shares upon the terms and subject to the conditions set forth in the related Offer to Purchase, dated February 10, 2012 (the "Offer to Purchase"), and the related Letter of Transmittal, dated February 10, 2012 (together with the Offer to Purchase, the "Perpetual Preferred Share Offer").

In connection with the expiration of the Perpetual Preferred Share Offer on March 9, 2012, holders of Perpetual Preferred Shares with an aggregate liquidation preference of approximately $20.1 million tendered their Perpetual Preferred Shares and SRGL accepted for purchase all such tendered Perpetual Preferred Shares. Payment in respect of the tendered Perpetual Preferred Shares was made on March 13, 2012, and all such shares subsequently were redeemed by SRGL.

10. Shareholders' Deficit (continued)

Following the completion of the Perpetual Preferred Share Offer, SRGL agreed to acquire, in separate open-market transactions, approximately $110.0 thousand in aggregate liquidation preference of its Perpetual Preferred Shares, at an average purchase price of $14.93 per share.

As a result of the foregoing transactions, a gain on the redemption of Perpetual Preferred Shares of approximately $14.0 million was recorded as a component of net income attributable to SRGL for the nine month period ended September 30, 2012.

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 under the terms of the Perpetual Preferred Shares to declare and pay a dividend in connection with the 2011 dividend payment dates, and on the January 15, 2012, April 15, 2012, and July 15, 2012 dividend payment dates, our Board resolved not to declare and pay a dividend on such dates. Pursuant to the terms of, and subject to the procedures set forth in, the Certificate of Designations related to the Perpetual Preferred Shares, the holders of the Perpetual Preferred Shares are entitled to elect two directors to our Board in the event dividends on the Perpetual Preferred Shares have not been declared and paid for six or more dividend periods. 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 September 30, 2012.

On September 24, 2012, our Board resolved to declare and pay a dividend on the Perpetual Preferred Shares on the October 15, 2012 dividend payment date, in accordance with the Certificate of Designations related to the Perpetual Preferred Shares. The amount of the dividend declared was $1.2 million. This amount, payable to the holders of record as of September 30, 2012, has been accrued in the accompanying financial statements. For further discussion on the payment of the Perpetual Preferred Shares dividend, refer to Note 14, "Subsequent Events – *Dividend on Perpetual Preferred Shares*".

11. Income Taxes

The income tax expense for the three month periods ended September 30, 2012 and 2011 was $0.4 million and $0.1 million, respectively. The income tax benefit for the nine month periods ended September 30, 2012 and 2011 was $8.5 million and $10.8 million, respectively. Any net income of our Bermuda and Cayman Island entities are not subject to income tax. The operations of our U.S. and Irish entities did not generate a current tax expense due to the availability of tax losses from prior tax years. The utilization of tax losses results in a reduction in deferred tax assets and a corresponding reduction in the valuation allowance established against those deferred tax assets. The income tax benefit for the nine month period ended September 30, 2012 was principally due to a partial release of the reserve for uncertain tax positions.

As of September 30, 2012, we had total unrecognized tax benefits (excluding interest and penalties) of $3.1 million, the recognition of which would result in a $1.5 million benefit at the effective tax rate for the applicable period.

Our deferred tax assets are principally supported by the reversal of deferred tax liabilities. 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 associated with our operations in the U.S. and Ireland, given our inability to rely on future taxable income projections and the scheduling of our current deferred tax liabilities.

11. Income Taxes (continued)

As of September 30, 2012 and December 31, 2011, our deferred tax liabilities included $41.9 million and $45.2 million, respectively, of deferred tax liabilities that reverse after the expiration of net operating loss carryforwards in applicable jurisdictions, and, therefore, cannot support deferred tax assets.

We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. As of September 30, 2012, we remained subject to examination in the following major tax jurisdictions for the returns filed for the years indicated below:

Major Tax Jurisdictions	Open Years
U.S.	
Life insurance ("U.S. Life Group")	2007 through 2011
Non-Life Group	2009 through 2011
Ireland	2008 through 2011

Net U.S. operating losses are being carried forward from closed years and could be examined by the Internal Revenue Service ("IRS") 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.

On March 30, 2011, SRUS was notified that the IRS would perform an examination of the U.S. Life Group tax returns for 2004, 2007, 2008, and 2009, prompted by an income tax refund of approximately $12.6 million that SRUS had received during 2010. The IRS issued a Revenue Agent's Report ("RAR"), which contained several Notices of Proposed Adjustments, and SRUS accepted the RAR on April 25, 2012, thereby accepting the proposed adjustments and completing the IRS examination. None of the IRS adjustments will result in a cash tax liability to the IRS or impact the Company's Summary of Operations. On April 30, 2012, the IRS submitted SRUS' case (consisting of the RAR and the related IRS workpapers) to the Joint Committee on Taxation (the "Joint Committee") for the Joint Committee's review and approval. The submission of the IRS examination report to the Joint Committee for review and approval is a statutory requirement in cases involving refunds of tax in excess of $2.0 million. This review by the Joint Committee could take up to twelve months from the date of the IRS submission of the case. On August 1, 2012, we were informed that the Joint Committee Review Staff (the "Staff") had received SRUS' case from the IRS and that the Staff would be reviewing the case and preparing a report for the Joint Committee. We will be notified when the Staff forwards such report to the Joint Committee. We do not intend to recognize any of the IRS adjustments until the Joint Committee has closed the case.

12. Commitments and Contingencies

Ballantyne Re plc

The Company remains liable for certain ongoing covenants and indemnities, as well as the accuracy and performance of certain representations, warranties, and other obligations to or for the benefit of Security Life of Denver Insurance Company, Ballantyne Re plc ("Ballantyne Re"), and the financial guarantors of certain of the notes issued by Ballantyne Re, as applicable.

The structure and historical information for Ballantyne Re are described in Note 9, "Collateral Finance Facilities and Securitization Structures – *Ballantyne Re*", accompanying SRGL's audited consolidated financial statements for the year ended December 31, 2011.

12. Commitments and Contingencies (continued)

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. As of September 30, 2012, there is no current action, suit, or proceeding, whether civil, criminal, administrative, or investigative, against any of our directors, officers, employees, and agents.

Since this indemnity generally is not subject to limitation with respect to duration or amount, we do not believe it is possible to determine the maximum potential amount due under this indemnity in the future.

13. Related Party Transactions

Investment in Cerberus Affiliated Fund

On March 26, 2012, SALIC executed subscription documents pursuant to which SALIC committed to make an investment of up to an aggregate $30.0 million in an investment fund affiliated with and controlled, directly or indirectly, by Cerberus (the "Cerberus Affiliated Fund"). As of September 30, 2012, SALIC had invested $13.7 million of its total commitment, which investment is included in Other Investments on the accompanying Consolidated Balance Sheets at a carrying value of $14.2 million.

14. 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 consolidated financial statements on November 15, 2012.

Dividend on Perpetual Preferred Shares

The dividend on the Perpetual Preferred Shares was paid on the October 15, 2012 dividend payment date. There can be no assurances that we will make subsequent dividend payments on the Perpetual Preferred Shares, either in our discretion or as a result of the application of the financial tests contained in the terms of the Perpetual Preferred Shares.

Interest Payments on the Capital and Trust Preferred Securities

Subsequent to September 30, 2012, we began making payment of the cumulative interest due on our floating rate capital securities and trust preferred securities. The total cumulative interest amount due to be paid during the fourth quarter of 2012 is approximately $23.8 million. As of November 15, 2012, we have paid a total of $3.7 million of the cumulative interest, which became due and was paid on October 29, 2012. The remainder of the cumulative interest on our floating rate capital securities and trust preferred securities is expected to be paid during December 2012. There can be no assurances that we will continue to pay current interest on these securities (without deferral) in any future period.

Orkney Re II

Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes on the November 11, 2012 scheduled interest payment date. As a result, Assured made guarantee payments on the Series A-1 Notes for such scheduled interest payment date in the amount of $0.8 million.