SCOTTISH RE GROUP LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012

(These financial statements are unaudited.)

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

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
Assets		
Fixed-maturity investments held as trading securities, at fair value	$ 1,934,207	$ 1,967,689
Preferred stock held as trading securities, at fair value	7,403	58,529
Cash and cash equivalents	363,944	282,028
Other investments	14,402	14,877
Funds withheld at interest	545,249	549,333
Total investments[1]	2,865,205	2,872,456
Accrued interest receivable[2]	16,301	16,757
Reinsurance balances receivable and risk fees receivable	87,216	120,976
Deferred acquisition costs	170,548	173,254
Amounts recoverable from reinsurers	762,878	749,034
Present value of in-force business	26,479	27,027
Other assets	8,253	8,771
Total assets	$ 3,936,880	$ 3,968,275
Liabilities		
Reserves for future policy benefits	$ 1,386,892	$ 1,354,140
Interest-sensitive contract liabilities	1,286,647	1,301,511
Collateral finance facility[3]	450,000	450,000
Accounts payable and other liabilities	63,699	64,426
Embedded derivative liabilities, at fair value	30,786	33,758
Reinsurance balances payable	73,452	93,244
Deferred tax liability	41,615	45,223
Long-term debt, at par value	129,500	129,500
Total liabilities	3,462,591	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 - $813.8 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: Issued: 5,000,000 shares (outstanding: 2012 – 3,251,176; 2011 – 4,806,083)	81,279	120,152
Additional paid-in capital	1,218,190	1,218,190
Retained deficit	(1,390,141)	(1,407,269)
Total Scottish Re Group Limited shareholders' deficit	(89,988)	(68,243)
Noncontrolling interest	8,420	8,859
Total shareholders' deficit	(81,568)	(59,384)
Total liabilities, mezzanine equity, and total shareholders' deficit	$ 3,936,880	$ 3,968,275

[1] Includes total investments of consolidated variable interest entity ("VIE")	$ 274,285	$ 282,429
[2] Includes accrued interest receivable of consolidated VIE	481	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	
	March 31, 2012	**March 31, 2011**
Revenues		
Premiums earned, net	$ 73,242	$ 94,335
Fees and other income	1,053	1,266
Investment income, net	29,005	39,253
Net realized and unrealized gains	23,977	25,726
Change in fair value of embedded derivatives assets and liabilities	2,971	5,156
Total revenues	130,248	165,736
Benefits and expenses		
Claims, policy benefits, and changes in policyholder reserves, net	97,572	97,266
Interest credited to interest-sensitive contract liabilities	10,790	12,026
Amortization of deferred acquisition costs and other insurance expenses, net	10,867	16,424
Operating expenses	7,523	11,359
Collateral finance facilities expense	2,631	6,213
Interest expense	1,570	1,678
Total benefits and expenses	130,953	144,966
(Loss) income before income taxes	(705)	20,770
Income tax benefit	3,400	1,330
Net income	2,695	22,100
Gain on redemption of non-cumulative perpetual preferred shares	13,994	-
Net loss attributable to noncontrolling interest	439	279
Net income attributable to Scottish Re Group Limited	$ 17,128	$ 22,379

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

(Expressed in Thousands of United States Dollars)

	Three month period ended March 31, 2012	Three month period ended March 31, 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	(38,873)	-
End of period	81,279	120,152
Additional paid-in capital:		
Beginning of period	1,218,190	1,217,894
Option expense	-	147
End of period	1,218,190	1,218,041
Retained deficit:		
Beginning of period	(1,407,269)	(1,208,286)
Net income attributable to Scottish Re Group Limited	17,128	22,379
End of period	(1,390,141)	(1,185,907)
Total Scottish Re Group Limited shareholders' (deficit) equity	$ (89,988)	$ 152,970
Noncontrolling interest:		
Beginning of period	8,859	9,000
Net loss	(439)	(279)
End of period	8,420	8,721
Total shareholders' (deficit) equity	$ (81,568)	$ 161,691

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

(Expressed in Thousands of United States Dollars)

	Three month period ended	
	March 31, 2012	**March 31, 2011**
Operating activities		
Net income	$ 2,695	$ 22,100
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized gains	(23,977)	(25,726)
Changes in value of embedded derivative assets and liabilities	(2,971)	(5,156)
Amortization of deferred acquisition costs	3,867	2,808
Amortization of present value of in-force business	548	1,183
Amortization of deferred finance facility costs	217	454
Depreciation of fixed assets	49	59
Option expense	-	147
Changes in assets and liabilities:		
Funds withheld at interest	4,084	2,402
Accrued interest receivable	456	508
Reinsurance balances receivable	33,760	751
Deferred acquisition costs	(1,160)	1,415
Other assets	270	3,620
Reserves for future policy benefits, net of amounts recoverable from reinsurers	18,908	47,105
Interest-sensitive contract liabilities	(1,615)	(356)
Accounts payable and other liabilities, including deferred tax liabilities	(4,340)	(363)
Reinsurance balances payable	(19,792)	(28,948)
Net cash provided by operating activities	10,999	22,003
Investing activities		
Purchase of fixed-maturity investments	(65,183)	(120,907)
Proceeds from sales and maturities of fixed-maturity investments	121,991	184,353
Proceeds from sales and maturities of preferred stock	51,797	375
Purchase of and proceeds from sales of other investments, net	476	503
Net cash provided by investing activities	109,081	64,324
Financing activities		
Withdrawals from interest-sensitive contract liabilities	(13,285)	(20,948)
Redemption of non-cumulative perpetual preferred shares	(24,879)	-
Net cash (used in) financing activities	(38,164)	(20,948)
Net change in cash and cash equivalents	81,916	65,379
Cash and cash equivalents, beginning of period	282,028	417,722
Cash and cash equivalents, end of period	$ 363,944	$ 483,101

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

1. Organization 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 March 31, 2012, we have principal operating companies, holding companies, financing companies, and collateral finance facilities in Bermuda, the Cayman Islands, Ireland, Luxembourg, and the United States ("U.S."), as follows:

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

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

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

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

<u>United States</u>
Scottish Holdings, Inc. ("SHI")
Scottish Re (U.S.), Inc. ("SRUS")
Scottish Re Life Corporation ("SRLC")

On August 24, 2011, the Merger (as defined and explained in Note 9, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares – *Merger Agreement*") was completed. 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 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) Equity". Further, the Company is actively evaluating strategic alternatives to increase shareholder value, including consideration of transactions for the sale or disposition of our businesses or assets, which transactions, individually or in the aggregate, may be material. Refer

1. Organization and Business (continued)

to Note 7, "Collateral Finance Facilities and Securitization Structures - *Orkney I Unwind Transaction*", for information regarding the Orkney I Unwind Transaction (as defined therein) that we consummated during 2011.

Business

As disclosed in the 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 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 the 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 inter-company transactions and balances have been eliminated in consolidation. We consolidated Merger Sub, as defined in Note 9, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares - *Merger Agreement*", during the period in which the Merger was completed, as explained in Note 9. We currently consolidate one non-recourse securitization, Orkney Re II, a special purpose vehicle incorporated under the laws of Ireland.

Estimates and Assumptions - 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.

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.

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

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 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 include the prohibition of the application of block discounts for all fair value measurement, regardless of hierarchy level, and that the "valuation premise" and "highest and best use" concepts (as defined therein) are not relevant to financial

3. Recent Accounting Pronouncements (continued)

instruments. New disclosures required within ASU No. 2011-04 focus on Level 3 measurements which 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 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 items whose fair value is not recorded on the balance sheet but is disclosed in the notes. ASU No. 2011-04 is to be applied prospectively effective during interim and annual periods beginning after December 15, 2011. 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 2012; however, we anticipate that it will have no effect on the Company's consolidated financial position and results of operations.

4. Investments

The portion of net unrealized gains for the three month period ended March 31, 2012 and 2011 that relates to trading securities still held at the reporting date was $17.5 million and $23.5 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 the consolidated financial statements and accompanying notes thereto for the year ended December 31, 2011, which also includes additional disclosures regarding our fair value measurements.

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

	March 31, 2012			
(U.S. dollars in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments				
Government securities	$ 32.4	$ -	$ 32.4	$ -
Corporate securities	915.0	-	831.4	83.6
Municipal bonds	52.4	-	46.9	5.5
Mortgage and asset-backed securities	934.4	-	586.8	347.6
Fixed-maturity investments	1,934.2	-	1,497.5	436.7
Preferred stock	7.4	-	7.4	-
Total assets at fair value	$ 1,941.6	$ -	$ 1,504.9	$ 436.7
Embedded derivative liabilities	(30.8)	-	-	(30.8)
Total liabilities at fair value	$ (30.8)	$ -	$ -	$ (30.8)

5. Fair Value Measurements (continued)

(U.S. dollars in millions)	December 31, 2011 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:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the three month period ended March 31, 2012

(U.S. dollars in millions)	Corporate securities	Municipal bonds	Mortgage and asset-backed securities	Preferred stock	Embedded derivative liabilities	Total
Beginning balance at January 1, 2012	$ 84.5	$ 5.5	$ 335.8	$ 50.0	$ (33.8)	$ 442.0
Total realized and unrealized gains (losses) included in net income	0.5	-	11.5	-	3.0	15.1
Purchases	-	-	33.5	-	-	33.5
Settlements	(1.4)	-	(33.2)	(50.0)	-	(84.6)
Transfers in and/or out of Level 3, net	-	-	-	-	-	-
Ending balance at March 31, 2012	$ 83.6	$ 5.5	$ 347.6	$ -	$ (30.8)	$ 405.9

5. Fair Value Measurements (continued)

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 at January 1, 2011	$ 128.5	$ -	$ 530.2	$ 56.0	$ (32.5)	$ 682.2
Total realized and unrealized (losses) gains included in net (loss) income	(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 at 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 period ended March 31, 2012 and 2011 that relates to Level 3 trading securities still held at the reporting date was $5.5 million and $19.9 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, are described in Note 6, "Fair Value of Financial Instruments" in the 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:

	March 31, 2012		December 31, 2011	
(U.S. dollars in thousands)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Assets				
Fixed-maturity investments	$ 1,934,207	$ 1,934,207	$ 1,967,689	$ 1,967,689
Preferred stock	7,403	7,403	58,529	58,529
Other investments	14,402	14,402	14,877	14,877
Funds withheld at interest	545,249	545,249	549,333	549,333
Liabilities				
Interest-sensitive contract liabilities	$ 1,286,647	$ 1,279,203	$ 1,301,511	$ 1,291,720
Collateral finance facilities	450,000	116,593	450,000	40,451
Embedded derivative liabilities	30,786	30,786	33,758	33,758
Long-term debt, at par value	129,500	97,173	129,500	72,071

7. Collateral Finance Facilities and Securitization Structures

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 that provides collateral support to the Company:

7. Collateral Finance Facilities and Securitization Structures (continued)

(U.S. dollars in millions)	March 31, 2012	December 31, 2011
Assets		
Funds withheld at interest	$ 355.1	$ 362.9
Cash and cash equivalents	1.0	1.2
All other assets	53.0	41.9
Total assets	$ 409.1	$ 406.0
Liabilities		
Reserves for future policy benefits	$ 134.2	$ 132.3
Collateral finance facilities	450.0	450.0
All other liabilities	31.1	28.1
Total liabilities	$ 615.3	$ 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 March 31, 2012 and December 31, 2011, respectively, 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 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 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 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 inter-company transactions.

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, $450.0 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 $25.0 million of Series B Floating Rate Notes (the “Series B Notes”), all due December 31, 2035 (collectively, the “Orkney Re II Notes”). In addition to $5.0 million of the Series B Notes, Orkney Re II also issued to SALIC $30.0 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. 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.

7. Collateral Finance Facilities and Securitization Structures (continued)

Orkney Re II Event of Default, Acceleration and Foreclosure

Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes on the scheduled interest payment date of May 11, 2009. 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 Guaranty (UK) Ltd. ("Assured"), in its capacity as financial guarantor of the 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 continues to have, certain enhanced contractual rights under the transaction documents, and additional fees will be accrued for the guarantee coverage. The enhanced contractual rights of Assured are described in Note 9, "Collateral Finance Facilities and Securitization Structures – *Orkney Re II*" in the consolidated financial statements and accompanying notes thereto for the year ended December 31, 2011.

On all scheduled quarterly interest payment dates since May 11, 2009, Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes. As of March 31, 2012, Assured made guarantee payments on the Series A-1 Notes in the cumulative amount of $8.8 million over the duration of the scheduled interest payment dates. This amount of cumulative interest is accrued for by us in Accounts Payable and Other Liabilities on the Consolidated Balance Sheets. Interest on the principal amount of the Orkney Re II 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 March 31, 2012, the interest rate on the a) Series A-1 Notes was 0.94% (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*".

Orkney I

On February 11, 2005, Orkney Holdings, LLC ("OHL") issued and sold, in a private offering, an aggregate of $850.0 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, Inc. ("Orkney Re" and, together with OHL, "Orkney I"), originally a South Carolina special purpose financial captive insurance company prior to its 2007 redomestication to Delaware as a Delaware special purpose captive insurance company. SRUS held all of the limited liability company interest in OHL, and had 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 (such defined block, the "Orkney Block"), and reinsured by SRUS to Orkney Re. Proceeds from the Orkney Notes were deposited into a series of accounts that collateralized the notes and the reserve obligations of SRUS.

Initially, in accordance with FASB ASC 810-10, Orkney I was considered to be a VIE, and we were considered to hold the primary beneficial interest, following an analysis whereby it was determined that we would absorb a majority of the expected losses (because all of the business assumed by Orkney Re had been ceded by us). As a result, Orkney I was consolidated in our financial statements through December 31, 2010. Following the Orkney I Unwind Transaction (see below), Orkney I was dissolved prior to December 31, 2011.

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 Reassurance Company of America ("Hannover Life Re") the Orkney Block (such transactions, as further discussed below, the "Orkney I Unwind Transaction"). The Orkney I Unwind Transaction closed on May 27, 2011. In connection with the Orkney I Unwind Transaction, SRUS recaptured the Orkney Block from Orkney Re (the "Orkney Recapture") and immediately ceded the Orkney Block to Hannover Life Re pursuant to a coinsurance reinsurance agreement, effective January 1, 2011 (the "New Reinsurance Agreement"). SRUS is obligated pursuant to the New Reinsurance Agreement to use commercially

7. Collateral Finance Facilities and Securitization Structures (continued)

reasonable best efforts to work with Hannover Life Re and the direct writers of the Orkney Block to obtain full novations from SRUS to Hannover Life Re of the underlying reinsurance treaties such that SRUS no longer would be a party to such reinsurance treaties.

On the date of the closing of these transactions, SRUS effectuated the Orkney Recapture and received recapture consideration from Orkney Re of $582.4 million, which recapture consideration was used to fund the ceding commission of $564.8 million due from SRUS to Hannover Life Re under the New Reinsurance Agreement. All assets thereafter remaining in the accounts at Orkney Re were transferred to OHL. OHL purchased all of the outstanding Orkney Notes pursuant to privately-negotiated purchase agreements (the "Note Purchase Agreements") for an aggregate amount of $590.0 million, which represented a discount to the $850.0 million aggregate principal amount of the Orkney Notes. Following the repurchase of the Orkney Notes, OHL immediately cancelled the Orkney Notes, and, thereafter, transferred its remaining assets to its parent, SRUS.

Approximately $700.0 million of the aggregate principal amount of the Orkney Notes purchased by OHL were held by affiliates of Cerberus Capital Management, L.P. ("Cerberus"), one of our controlling shareholders. Under the terms of the Registration Rights and Shareholders Agreement, dated May 2007 among the Company, Cerberus, MassMutual Capital Partners LLC, a member of the MassMutual Financial Group ("MassMutual Capital"), and certain other (now former) shareholders of the Company (the "Shareholders Agreement"), the Company's execution of the Note Purchase Agreement with affiliates of Cerberus required 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 occurred on May 27, 2011, was subject to a number of closing conditions, including the receipt of required approvals from the Delaware Department of Insurance, which were received on May 25, 2011.

Following the consummation of the Orkney I Unwind Transaction, SRGL recorded a consolidated net loss of approximately $153.3 million in 2011. Due to the New Reinsurance Agreement with Hannover Life Re being effective January 1, 2011, the reinsurance activity associated with the Orkney Block for the period from January 1, 2011 through March 31, 2011 and the negotiated interest on the ceding commission that was paid to Hannover Life Re for the period from January 1, 2011 through May 27, 2011 were settled with Hannover Life Re following the consummation of the Orkney I Unwind Transaction. The Orkney I Unwind Transaction reduced our consolidated total assets and liabilities by approximately $1,007.2 million and $853.9 million, respectively, and resulted in a consolidated U.S. GAAP loss of $153.3 million in 2011.

The Orkney I Unwind Transaction was recorded in accordance with the Company's accounting policy to recognize, as a net loss in current period income, the full cost of reinsurance on 100% retrocessions executed with the intent to exit that block of business. The Company viewed the Orkney I Unwind Transaction as a sale of the Orkney Block and is contractually obligated to utilize commercially reasonable efforts to facilitate the novation of the underlying business from SRUS to Hannover Life Re.

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 the consolidated financial statements for the year ended December 31, 2011, and there were no changes in the balances or terms during the three month period ended March 31, 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 March 31, 2012	4.47%	4.42%	4.37%	4.27%	3.97%
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 March 31, 2012	13	13	13	13	13

** Defined in the notes accompanying the 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. These deferrals were permitted by the terms of the indentures governing the securities and were made at the discretion of our Board to preserve liquidity. As of March 31, 2012, we have accrued and deferred payment of $19.0 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 March 31, 2012, refer to Note 14, "Subsequent Events - *Deferral of Interest Payments on the Capital and Trust Preferred Securities*".

9. Mezzanine Equity – Convertible Cumulative Participating Preferred Shares

We have accounted for the Convertible Cumulative Participating Preferred Shares issued to MassMutual Capital and Cerberus (together, the "Investors") in 2007, in accordance with FASB ASC Subtopic 470-20, Debt – Debt with Conversion and Other Options ("FASB 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 March 31, 2012, the amount of dividends accreted pursuant to the terms of the Convertible Cumulative Participating Preferred Shares is $213.8 million in the aggregate, or $213.75 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 the consolidated financial statements for the year ended December 31, 2011.

Merger Agreement

On April 15, 2011, we entered into an agreement and plan of merger (the "Merger Agreement") with affiliates of our controlling shareholders, the Investors, pursuant to which an affiliate of the Investors ("Merger Sub") would be merged into SRGL and SRGL would continue as the surviving entity. Under the Merger Agreement, all ordinary shares would be converted into the right to receive $0.30 per share, which represented a premium of $0.14 (or 87.5%) over the average trading price of the ordinary shares for the three months preceding April 15, 2011 (collectively, the "Merger"), provided that any ordinary shares held by shareholders that properly exercised dissenter rights (the "Dissenting Shareholders") under the Companies Law (2010 Revised) of the Cayman Islands (the "Companies Law") would be valued in accordance with the procedures set forth under the Companies Law. The Merger consideration to all such ordinary shares held by non-Dissenting Shareholders was funded solely by the Investors, on behalf of Merger Sub. Following the effectiveness of the Merger, all of the outstanding ordinary shares of SRGL would be owned by affiliates of the Investors. The Convertible Cumulative Participating Preferred Shares and the Perpetual Preferred Shares were unaffected by the Merger and remain outstanding. Under the terms of the Shareholders Agreement, any agreement for the Company to merge with the Investors or an affiliate of the Investors required 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.

The Merger Agreement permitted 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, solicited during this period alternative proposals for the acquisition of the ordinary shares. The Merger Agreement also provided the Investors with a customary right to match a superior proposal. This process did not result in a superior proposal.

Completion of the Merger was subject to, among other conditions, approval by a majority of the ordinary shares held by parties unaffiliated with the Investors or the Company attending and voting at the shareholders meeting (whether in person or by proxy). SRGL prepared and delivered to shareholders on May 11, 2011, in connection with the extraordinary general meeting of shareholders held on June 8, 2011, an Information Statement (which Information Statement subsequently was posted to the Company's website) containing detailed information regarding the Merger. The Merger was approved at such meeting by the Company's shareholders, including by a majority of the ordinary shares held by parties not affiliated with the Investors or the Company (attending and voting at the shareholders meeting whether in person or by proxy).

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

In connection with the Merger, the Investors released 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 15, "Commitments and Contingencies - *Indemnification*" in the notes accompanying the consolidated financial statements for the year ended December 31, 2011.

The Merger Agreement imposed certain conditions to the obligations of the respective parties to close the Merger. Among these conditions was the receipt of required governmental consents and approvals, all of which were received. Additionally, it was a condition to the obligation of the Investors and Merger Sub to effect the Merger that ordinary shareholders holding no more than 10% of the issued and outstanding ordinary shares (excluding, generally, any ordinary shares owned by the Investors, the Company, or their respective affiliates ("Owned Shares")) have exercised dissenters' rights under the Companies Law. In connection with the procedures set forth in the Information Statement and Section 238 of the Companies Law, the Company received notices to exercise such dissenter's rights from the Dissenting Shareholders holding in excess of 10% of the outstanding ordinary shares (excluding Owned Shares). The Investors and Merger Sub subsequently waived this condition, and, on August 24, 2011, the Merger was completed. Upon the closing and effectiveness of the Merger on August 24, 2011, all existing ordinary shares of the Company were cancelled and all shareholders (other than Dissenting Shareholders and the holders of any Owned Shares) were eligible to receive Merger consideration of $0.30 per ordinary share. With the completion of the Merger, all outstanding voting shares of the Company are now owned by the Investors. The deemed capitalization of Merger Sub by the Investors prior to the Merger and the subsequent payment of the Merger consideration by the Investors on behalf of the Merger Sub, effective on August 24, 2011, totaled approximately $17.7 million, and had no net impact on the Company's consolidated financial statements. Following the closing and effectiveness of the Merger, the Company continued to have certain obligations under Section 238 of the Companies Law which could have included participating in court proceedings in the Cayman Islands to determine the fair value of the Dissenting Shareholders' ordinary shares. In connection with the requirements of Section 238 of the Companies Law, the Company engaged in negotiations with each of the Dissenting Shareholders in respect of the consideration to be paid for their ordinary shares and reached resolution with each such Dissenting Shareholder. Other than with respect to the reimbursement of a minimal amount of costs and expenses that were paid by the Company, all amounts paid to the Dissenting Shareholders in respect of their ordinary shares were funded by the Investors.

10. Shareholders' (Deficit) Equity

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 during the three month period ended March 31, 2012 and the year ended December 31, 2011:

	Three Month Period Ended March 31, 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 9, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares – Merger Agreement", for information regarding the Merger.*

Perpetual Preferred Shares

We are authorized to issue 50,000,000 perpetual 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.

The following table summarizes the activity in our non-cumulative Perpetual Preferred Shares during the three month period ended March 31, 2012 and the year ended December 31, 2011:

	Three Month Period Ended March 31, 2012	Year Ended December 31, 2011
Non-cumulative Perpetual Preferred Shares		
Beginning of year	4,806,083	4,806,083
Non-cumulative Perpetual Preferred Shares redeemed	(1,554,907)	-
End of period/year	3,251,176	4,806,083

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. The quarterly floating rates from March 31, 2011 through March 31, 2012 ranged between 6.41% and 8.04%. 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.

10. Shareholders' (Deficit) Equity (continued)

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 by SRGL 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 ("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 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. 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 three month period ended March 31, 2012.

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, if dividends on the Perpetual Preferred Shares have not been declared and paid (or declared and a sum sufficient for the payment thereof set aside) for the current dividend period, we generally are precluded from paying or declaring any dividend on the Ordinary Shares. Refer to Note 9, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares – *Merger Agreement*", for information regarding the ordinary shares following the completion of the Merger.

Dividends on Perpetual Preferred Shares

In accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares, our Board was precluded from declaring and paying 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 dividend payment date, the Board resolved not to declare and pay a dividend on each 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 March 31, 2012. For further discussion on the non-declaration of Perpetual Preferred Shares dividends, refer to Note 14, "Subsequent Events - *Non-declaration of Dividends on Perpetual Preferred Shares*".

11. Income Taxes

The income tax benefit for the three month period ended March 31, 2012 and 2011 was $3.4 million and $1.3 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, other than interest and penalties on accrued tax liabilities, 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 three month period ended March 31, 2012 was principally due to a reduction of the deferred tax liability for items reversing outside of the 15 year NOL carryforward period.

As of March 31, 2012, we had total unrecognized tax benefits (excluding interest and penalties) of $109.5 million, the recognition of which would result in a $4.2 million benefit at the effective tax rate for the applicable period. The total unrecognized tax benefits figure (excluding interest and penalties) and the resulting tax benefit recognition figure were unchanged from December 31, 2011.

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 in the U.S. and Ireland, given our inability to rely on future taxable income projections and the scheduling of our current deferred tax liabilities.

As of March 31, 2012, our deferred tax liabilities included $41.6 million of deferred tax liabilities that reverse after the expiration of net operating loss carryforwards in applicable jurisdictions, and, therefore, cannot support deferred tax assets. As of December 31, 2011, the corresponding amount of deferred tax liabilities was $45.2 million.

We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. As of March 31, 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	2008 through 2011
Ireland	2007 through 2011

Net operating losses are being carried forward from closed years and could be examined by the 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 U.S. Internal Revenue Service ("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. As of March 31, 2012, the IRS had completed its fieldwork, but the examination was still in progress. When the IRS completes its examination, our case will be submitted for review and approval to the Joint Committee on Taxation (the "Joint Committee"), which is statutorily required to review the submission of reports by the IRS in cases involving refunds of tax in excess of $2.0 million. For further discussion on the IRS examination, please refer to Note 14, "Subsequent Events - *Internal Revenue Service Examination*".

12. Commitments and Contingencies

Ballantyne Re plc

The obligations of the Company as they relate to Ballantyne Re plc and as described in Note 9, "Collateral Finance Facilities and Securitization Structures – *Ballantyne Re*", accompanying the Company's consolidated financial statements for the year ended December 31, 2011 remain unchanged as of March 31, 2012.

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.

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"). For information regarding subsequent investments, refer to Note 14, "Subsequent Events – *Investment in Cerberus Affiliated Fund*".

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 May 15, 2012.

Non-declaration of Dividends on Perpetual Preferred Shares

The Board resolved not to declare and pay a dividend on the Perpetual Preferred Shares on the April 15, 2012 dividend payment date.

Investment in Cerberus Affiliated Fund

Subsequent to March 31, 2012, SALIC invested, pursuant to capital calls from the Cerberus Affiliated Fund, approximately $7.6 million of its $30.0 million total commitment.

Orkney Re II

Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes on the May 11, 2012 scheduled interest payment date. As a result, Assured made guarantee payments on the Series A-1 Notes in the amount of $0.9 million.

14. Subsequent Events (continued)

Internal Revenue Service Examination

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 examination by the IRS. None of the IRS adjustments will result in a cash tax liability to the IRS or impact the Company's Summary of Operations. The IRS will provide the RAR and related IRS workpapers to the Joint Committee for review and approval, which could take up to twelve months from the date of the IRS submission of our case to the Joint Committee. We do not intend to recognize any of the IRS adjustments until the Joint Committee has closed the case.

Deferral of Interest Payments on the Capital and Trust Preferred Securities

Subsequent to March 31, 2012, we have accrued and deferred payment of an additional $0.3 million of interest on our floating rate capital securities and trust preferred securities. As of May 15, 2012, we have accrued and deferred payment on a total of $19.3 million of interest.