SCOTTISH RE GROUP LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

(These consolidated financial statements are unaudited.)

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

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Assets		
Fixed-maturity investments held as trading securities, at fair value	$ 1,856,285	$ 1,733,224
Preferred stock held as trading securities, at fair value	1,610	2,387
Cash and cash equivalents	218,609	368,809
Other investments	23,073	19,067
Funds withheld at interest	469,936	482,985
Total investments[1]	2,569,513	2,606,472
Accrued interest receivable[2]	13,588	12,979
Reinsurance balances receivable	102,326	129,159
Deferred acquisition costs	156,443	162,181
Amounts recoverable from reinsurers	702,299	705,703
Present value of in-force business	23,000	24,001
Other assets	6,984	7,911
Total assets	$ 3,574,153	$ 3,648,406
Liabilities		
Reserves for future policy benefits	$ 1,325,245	$ 1,329,120
Interest-sensitive contract liabilities	1,063,531	1,104,413
Collateral finance facility[3]	450,000	450,000
Accounts payable and other liabilities	57,414	51,917
Embedded derivative liabilities, at fair value	20,042	26,290
Reinsurance balances payable	70,418	72,611
Deferred tax liabilities	37,427	43,129
Long-term debt, at par value	116,500	129,500
Total liabilities	3,140,577	3,206,980
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: 2013 - $792.6 million; 2012 - $770.7 million)	555,857	555,857
Shareholders' Deficit		
Ordinary shares, par value $0.01; 68,383,370 shares issued and outstanding	684	684
Non-cumulative perpetual preferred shares, par value $0.01: Shares issued and outstanding: 3,246,776 shares in 2013 and 2012)	81,169	81,169
Additional paid-in capital	1,218,190	1,218,190
Retained deficit	(1,422,324)	(1,414,474)
Total shareholders' deficit	(122,281)	(114,431)
Total liabilities, mezzanine equity, and total shareholders' deficit	$ 3,574,153	$ 3,648,406

[1] Includes total investments of consolidated variable interest entity ("VIE")	$ 314,044	$ 296,476
[2] Includes accrued interest receivable of consolidated VIE	481	488
[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		Six month period ended	
	June 30, 2013	**June 30, 2012**	**June 30, 2013**	**June 30, 2012**
Revenues				
Premiums earned, net	$ 80,067	$ 76,923	$ 161,830	$ 150,165
Investment income, net	22,969	28,632	45,548	57,637
Net realized and unrealized (losses) gains	(11,192)	10,117	16,362	34,094
Gain on extinguishment of long-term debt	-	-	6,240	-
Change in fair value of embedded derivative assets and liabilities	2,531	(1,971)	6,247	1,000
Fees and other income	(2,436)	1,481	3,383	2,534
Total revenues	91,939	115,182	239,610	245,430
Benefits and expenses				
Claims, policy benefits, and changes in policyholder reserves, net	94,882	101,575	192,624	199,147
Interest credited to interest-sensitive contract liabilities	7,589	10,064	15,426	20,854
Amortization of deferred acquisition costs and other insurance expenses, net	12,401	12,979	23,383	23,846
Operating expenses	6,629	8,442	13,973	15,965
Collateral finance facilities expense	2,481	2,604	4,939	5,235
Interest expense	1,216	1,561	2,439	3,131
Total benefits and expenses	125,198	137,225	252,784	268,178
Loss before income taxes	(33,259)	(22,043)	(13,174)	(22,748)
Income tax benefit	4,617	5,501	5,324	8,901
Net loss	(28,642)	(16,542)	(7,850)	(13,847)
Gain on redemption of non-cumulative perpetual preferred shares	-	43	-	14,037
Net loss attributable to noncontrolling interest	-	391	-	830
Net (loss) income attributable to Scottish Re Group Limited	$ (28,642)	$ (16,108)	$ (7,850)	$ 1,020

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)

	Six month period ended	
	June 30, 2013	**June 30, 2012**
Share capital:		
Ordinary shares:		
Beginning and end of period	$ 684	$ 684
Non-cumulative perpetual preferred shares:		
Beginning of period	81,169	120,152
Non-cumulative perpetual preferred shares redeemed	-	(38,978)
End of period	81,169	81,174
Additional paid-in capital:		
Beginning and end of period	$ 1,218,190	$ 1,218,190
Retained deficit:		
Beginning of period	(1,414,474)	(1,407,269)
Net (loss) income attributable to Scottish Re Group Limited	(7,850)	1,020
End of period	(1,422,324)	(1,406,249)
Total Scottish Re Group Limited shareholders' deficit	$ (122,281)	$ (106,201)
Noncontrolling interest:		
Beginning of period	-	8,859
Net loss attributable to noncontrolling interest	-	(830)
End of period	-	8,029
Total shareholders' deficit	$ (122,281)	$ (98,172)

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)

	Six month period ended June 30, 2013	Six month period ended June 30, 2012
Operating activities		
Net loss	$ (7,850)	$ (13,847)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net realized and unrealized gains	(16,362)	(34,094)
Gain on extinguishment of long-term debt	(6,240)	-
Changes in value of embedded derivative assets and liabilities	(6,248)	(1,000)
Amortization of deferred acquisition costs	5,738	5,498
Amortization of present value of in-force business	1,001	782
Amortization of deferred finance facility costs	434	434
Depreciation of fixed assets	72	90
Changes in assets and liabilities:		
Funds withheld at interest	13,049	20,511
Other investments	(1,523)	-
Accrued interest receivable	(609)	513
Reinsurance balances receivable	26,833	14,220
Other assets	500	(67)
Reserves for future policy benefits, net of amounts recoverable from reinsurers	(471)	(732)
Interest-sensitive contract liabilities	(12,095)	(10,190)
Accounts payable and other liabilities, including deferred tax liabilities	(205)	(3,612)
Reinsurance balances payable	(2,193)	(362)
Net cash used in operating activities	(6,169)	(21,856)
Investing activities		
Purchase of fixed-maturity investments	(260,741)	(154,201)
Proceeds from sales and maturities of fixed-maturity investments	154,000	209,760
Purchase of and proceeds from sales and maturities of preferred stock, net	794	54,131
Purchase of and proceeds from other investments, net	(2,483)	(12,793)
Net cash (used in) provided by investing activities	(108,430)	96,897
Financing activities		
Withdrawals from interest-sensitive contract liabilities	(28,841)	(35,928)
Redemption of non-cumulative perpetual preferred shares	-	(24,941)
Acquisition of long-term debt	(6,760)	-
Net cash used in financing activities	(35,601)	(60,869)
Net change in cash and cash equivalents	(150,200)	14,172
Cash and cash equivalents, beginning of period	368,809	282,028
Cash and cash equivalents, end of period	$ 218,609	$ 296,200

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 June 30, 2013, 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:

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

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

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

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

<u>United States of America ("U.S.")</u>
Scottish Holdings, Inc. ("SHI")
Scottish Re (U.S.), Inc. ("SRUS")
Scottish Re Life Corporation ("SRLC")*
**Refer to Note 13, "Subsequent Events - Merger of Subsidiaries" for details on an SRUS and SRLC merger.*

Run-Off Strategy

In 2008, we ceased writing new business and notified our existing clients that we would not be accepting any new reinsurance risks under existing reinsurance treaties, thereby placing our reinsurance business into run-off. We continue to run-off our remaining business, whereby we receive premiums, pay claims, and perform key activities under our reinsurance treaties.

While pursuing this 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 and other liabilities. Any such purchases will depend on a variety of factors including, but not limited to, available corporate liquidity, capital requirements, and indicative pricing levels. The amounts involved in any such transactions, individually or in the aggregate, may be material. For further discussion on our outstanding securities and recent transactions, please refer to Note 7, "Debt Obligations and Other Funding Arrangements", and to Note 9, "Shareholders' Deficit". Further, the Company may continue to evaluate strategic alternatives to the run-off strategy, which activity, individually or in the aggregate, may be material.

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

Business

As disclosed in the Company's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2012, 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 the Company's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2012.

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 currently consolidate one non-recourse securitization, Orkney Re II, a special purpose VIE incorporated under the laws of Ireland.

Noncontrolling Interest - The noncontrolling interest in the prior year represented the 5% of SRLC that was not owned by the Company prior to December 21, 2012, the date when the Company acquired the remaining 5% of SRLC from the previous owner and extinguished the noncontrolling interest.

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.

Our most significant estimates and assumptions related to the following:

- investment valuations;
- accounting for derivative instruments;
- assessment of risk transfer for structured insurance and reinsurance contracts;
- estimates of premiums;
- valuation of the present value of in-force business;
- establishment of reserves for future policy benefits;
- amortization of deferred acquisition costs;
- retrocession arrangements and amounts recoverable from reinsurers;
- interest-sensitive contract liabilities; and
- current and deferred income taxes and the determination of associated valuation allowances.

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

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

3. Investments

Other Investments, as of June 30, 2013, represented policy loans, which are carried at the outstanding loan balances, investments in debt securities, and 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 losses and gains for the three month periods ended June 30, 2013 and 2012 that related to trading securities, which includes fixed-maturity investments and preferred stocks, still held at the reporting dates was $12.1 million of net unrealized losses and $8.6 million of net unrealized gains, respectively.

The portion of net unrealized gains for the six month periods ended June 30, 2013 and 2012 that related to trading securities, which includes fixed-maturity investments and preferred stocks, still held at the reporting dates was $15.2 million and $26.1 million, respectively.

4. Fair Value Measurements

FASB ASC 820 defines fair value, establishes a framework for measuring fair value based on an exit price definition, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and provides disclosure requirements for fair value measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements), as described in Note 5, "Fair Value Measurements" in the Company's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2012, which, along with Note 3, "Investments" above, 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:

	June 30, 2013			
(U.S. dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Government securities	$ -	$ 34.5	$ -	$ 34.5
Corporate securities	-	737.4	66.8	804.2
Municipal bonds	-	40.2	-	40.2
Mortgage and asset-backed securities	-	588.8	388.6	977.4
Fixed-maturity investments	-	1,400.9	455.4	1,856.3
Preferred stock	-	1.6	-	1.6
Total assets at fair value	$ -	$ 1,402.5	$ 455.4	$ 1,857.9
Embedded derivative liabilities	-	-	(20.0)	(20.0)
Total liabilities at fair value	$ -	$ -	$ (20.0)	$ (20.0)

4. Fair Value Measurements (continued)

(U.S. dollars in millions)	December 31, 2012 Level 1	Level 2	Level 3	Total
Investments				
Government securities	$ -	$ 36.3	$ -	$ 36.3
Corporate securities	-	677.6	74.2	751.8
Municipal bonds	-	36.3	5.4	41.7
Mortgage and asset-backed securities	-	583.3	320.1	903.4
Fixed-maturity investments	-	1,333.5	399.7	1,733.2
Preferred stock	-	2.4	-	2.4
Total assets at fair value	$ -	$ 1,335.9	$ 399.7	$ 1,735.6
Embedded derivative liabilities	-	-	(26.3)	(26.3)
Total liabilities at fair value	$ -	$ -	$ (26.3)	$ (26.3)

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 as of the dates indicated:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the Six Month Period Ended June 30, 2013

(U.S. dollars in millions)	Corporate securities	Municipal bonds	Mortgage and asset-backed securities	Total assets at fair value	Total liabilities at fair value
Beginning balance at January 1, 2013	$ 74.2	$ 5.4	$ 320.1	$ 399.7	$ (26.3)
Total realized and unrealized gains (losses) included in net income	(1.8)	-	51.4	49.6	6.3
Purchases	0.7	-	38.6	39.3	-
Settlements	(6.1)	-	(20.5)	(26.6)	-
Transfers in and/or (out of) Level 3, net	(0.2)	(5.4)	(1.0)	(6.6)	-
Ending balance at June 30, 2013	$ 66.8	$ -	$ 388.6	$ 455.4	$ (20.0)

4. Fair Value Measurements (continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for the Year Ended December 31, 2012

(U.S. dollars in millions)	Corporate securities	Municipal bonds	Mortgage and asset-backed securities	Preferred stock	Total assets at fair value	Total liabilities at fair value
Beginning balance at January 1, 2012	$ 84.5	$ 5.5	$ 335.8	$ 50.0	$ 475.8	$ (33.8)
Total realized and unrealized gains included in net income	1.2	-	99.0	-	100.2	7.5
Purchases	0.1	-	88.5	-	88.6	-
Settlements	(21.2)	(0.1)	(200.5)	(50.0)	(271.8)	-
Transfers in and/or (out of) Level 3, net	9.6	-	(2.7)	-	6.9	-
Ending balance at December 31, 2012	$ 74.2	$ 5.4	$ 320.1	$ -	$ 399.7	$ (26.3)

Changes in classifications impacting Level 3 financial instruments were reported in the above tables as transfers in (out) of the Level 3 category at the end of each quarterly period in which the transfers occurred. The portion of net unrealized gains for the three month and six month periods ended June 30, 2013 related to Level 3 trading securities still held at the reporting dates was $22.5 million and $47.9 million in net gains, respectively. The portion of net unrealized gains for the three month and six month periods ended June 30, 2012 related to Level 3 trading securities still held at the reporting dates was $3.4 million and $8.9 million in net gains, respectively.

The following tables summarize the fair values (in millions), the valuation techniques, and the significant unobservable inputs of the Level 3 fair value measurements, as of June 30, 2013 and December 31, 2012, respectively, for which we have been able to obtain quantitative information about the significant unobservable inputs used in those fair value measurements:

June 30, 2013

Assets (U.S. dollars in millions)	Fair Value	Valuation Technique	Significant Unobservable Inputs	Input Ranges
Corporate securities	$ 64.7	Discounted Cash Flow	Liquidity/duration adjustment*	0.6% - 4.8%
Mortgage and asset-backed securities	$ 24.3	Discounted Cash Flow	Liquidity/duration adjustment*	1.7% - 3.3%

4. Fair Value Measurements (continued)

December 31, 2012				
Assets (U.S. dollars in millions)	**Fair Value****	**Valuation Technique**	**Significant Unobservable Inputs**	**Input Ranges**
Corporate securities	$ 74.0	Discounted Cash Flow	Liquidity/duration adjustment*	0.7% - 9.0%
Mortgage and asset-backed securities	$ 25.5	Discounted Cash Flow	Liquidity/duration adjustment*	2.1% - 3.5%

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

***The December 31, 2012 comparative fair value figures in the above table have been updated to reflect the correct allocation of the fair value amounts for corporate securities and mortgage and asset-backed securities.*

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

5. Fair Value of Financial Instruments

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 3, "Investments" and Note 4, "Fair Value Measurements", are described in Note 6, "Fair Value of Financial Instruments" in the Company's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2012. The following table sets forth the fair values of our financial instruments, as of the dates indicated:

	June 30, 2013		December 31, 2012	
(U.S. dollars in thousands)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Assets				
Fixed-maturity investments	$ 1,856,285	$ 1,856,285	$ 1,733,224	$ 1,733,224
Preferred stock	1,610	1,610	2,387	2,387
Other investments	23,073	23,073	19,067	19,067
Funds withheld at interest	469,936	469,936	482,985	482,985
Liabilities				
Interest-sensitive contract liabilities	1,063,531	1,061,902	$ 1,104,413	$ 1,102,704
Collateral finance facility	450,000	126,960	450,000	114,638
Embedded derivative liabilities	20,042	20,042	26,290	26,290
Long-term debt, at par value	116,500	69,367	129,500	69,370

6. Collateral Finance Facility and Securitization Structure

Orkney Re II

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

(U.S. dollars in thousands)	**June 30, 2013**	**December 31, 2012**
Assets		
Funds withheld at interest	$ 361,589	$ 358,856
Cash and cash equivalents	2,013	2,253
All other assets	50,379	46,226
Total assets	$ 413,981	$ 407,335
Liabilities		
Reserves for future policy benefits	$ 139,565	$ 133,045
Collateral finance facility	450,000	450,000
All other liabilities	42,811	37,762
Total liabilities	$ 632,376	$ 620,807

6. Collateral Finance Facility and Securitization Structure (continued)

The assets listed in the foregoing table are subject to a variety of restrictions on their use, as set forth in and governed by the transaction documents for the Orkney Re II collateral finance facility and securitization structure. The total investments of the consolidated VIE disclosed in the accompanying Consolidated Balance Sheets include the following adjustments: (i) deduction of the assets needed to satisfy future policy benefits, based on current projections, and (ii) addition of the market value of consolidated assets held in a segregated account in excess of Orkney Re II's funds withheld at interest. The reinsurance liabilities of Orkney Re II have been eliminated from the Consolidated Balance Sheets.

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 the Company's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2012.

Orkney Re II Event of Default, Acceleration and Foreclosure

Orkney Re II has been unable to make scheduled interest payments on its Series A-1 Notes on all scheduled quarterly interest payment dates since May 11, 2009. As of June 30, 2013, Assured Guaranty (UK) Ltd. ("Assured") has made guarantee payments in the cumulative amount of $14.0 million on the Series A-1 Notes. We accrue this amount of cumulative interest 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%. As of June 30, 2013, the interest rate on the Series A-1 Notes was 0.70% (compared to 0.74% as of December 31, 2012). For further discussion on the Orkney Re II scheduled interest payments on the Series A-1 Notes, please refer to Note 13, "Subsequent Events - *Orkney Re II*".

7. 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 Company's audited consolidated financial statements for the year ended December 31, 2012. Pertinent details regarding the Capital and Trust Preferred Securities 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	$19,000**	$50,000
Maturity date	Dec 4, 2032	Oct 29, 2033	Sept 30, 2033	June 17, 2034	Dec 15, 2034
Redeemable (in whole or in part) after	Dec 4, 2007	Oct 29, 2008	Sept 30, 2008	June 17, 2009	Dec 15, 2009
Interest Payable	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Interest rate: 3-month LIBOR +	4.00%	3.95%	3.90%	3.80%	3.50%
Interest rate as of June 30, 2013	4.27%	4.22%	4.17%	4.07%	3.77%
Interest rate as of December 31, 2012	4.31%	4.26%	4.21%	4.11%	3.81%
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 June 30, 2013	2	2	2	2	2

* *Defined in the notes accompanying the Company's audited consolidated financial statements for the year ended December 31, 2012.*

***Not included in this amount is $13.0 million of outstanding Trust Preferred Securities Due 2034 owned by SRGL, as further explained in this Note.*

Deferral of Interest Payments on the Capital and Trust Preferred Securities

We began deferring interest payments as of January 29, 2013 on the Capital and Trust Preferred Securities as permitted by the terms of the indentures governing the securities. As of June 30, 2013, we have accrued and deferred net payments of $2.8 million in interest on the Capital and Trust Preferred Securities. SHI, SFL and SALIC generally are restricted in their ability to make certain dividend payments and payments in respect of obligations ranking junior or *pari passu* to the Capital and Trust Preferred Securities in any period where interest payment obligations on these securities are not current.

For discussion of relevant actions taken by our Board of Directors (the "Board") subsequent to June 30, 2013, please refer to Note 13, "Subsequent Events – *Deferral of Interest Payments on the Capital and Trust Preferred Securities*".

7. Debt Obligations and Other Funding Arrangements (continued)

Purchase of Capital and Trust Preferred Securities

On January 31, 2013, SRGL agreed to acquire, in a private transaction, approximately $13.0 million in aggregate liquidation amount of Trust Preferred Securities Due 2034, with a liquidation preference of $1,000 per security, at a purchase price of $520.00 per security. Consequently, although the acquired securities remain outstanding, in accordance with FASB ASC 405, Extinguishment of Liabilities, the Company recorded a $6.2 million gain on the extinguishment of long-term debt in the Consolidated Statements of Operations in the first quarter of 2013.

8. Mezzanine Equity – Convertible Cumulative Participating Preferred Shares

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

On December 12, 2012, our Board resolved to declare and pay dividends on our Ordinary Shares (as discussed in more detail in Note 9, "Shareholders' Deficit – *Dividends on Ordinary Shares*") and, consistent with the right of the holders of the CCPP Shares to also receive dividends on an as-converted basis, to declare and pay dividends on the CCPP Shares, in accordance with the Certificate of Designations related to the CCPP Shares. The aggregate amount of the dividend declared was $110.0 million ($75.6 million of which was allocated to the CCPP Shares) and such dividend was paid on December 20, 2012. The payment of the dividend, which represented a portion of the accreted cumulative participating dividends on the CCPP Shares, resulted in a corresponding reduction to the liquidation preference of the CCPP Shares. As of June 30, 2013, the amount of dividends accreted pursuant to the terms of the CCPP Shares, after giving effect to the payment of the December 20, 2012 dividend, was $192.6 million in the aggregate, or $192.57 per CCPP Share. For further discussion and additional disclosures regarding the CCPP Shares, please refer to Note 11, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares" in the notes accompanying the Company's audited consolidated financial statements for the year ended December 31, 2012.

9. Shareholders' Deficit

Ordinary Shares

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

The following table summarizes the activity in the Ordinary Shares during the three month period ended June 30, 2013 and the year ended December 31, 2012:

	Six Month Period Ended June 30, 2013	Year Ended December 31, 2012
Ordinary shares		
Beginning and end of period/year	68,383,370	68,383,370

9. Shareholders' Deficit (continued)

Perpetual Preferred Shares

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

In 2005, we issued 5,000,000 non-cumulative Perpetual Preferred Shares (the "Perpetual Preferred Shares"). Gross proceeds of the Perpetual Preferred Share issuance were $125 million, and related expenses were $4.6 million.

The dividend rate on the Perpetual Preferred Shares may be at a fixed rate determined through remarketing of the Perpetual Preferred Shares for specific periods of varying length not less than six months or may be at a floating rate reset quarterly based on a predefined set of interest rate benchmarks. The quarterly floating rates from June 30, 2012 through June 30, 2013 ranged between 6.07% and 7.15%. During any dividend period, unless the full dividends for the current dividend period on all outstanding Perpetual Preferred Shares have been declared or paid, no dividend may be paid or declared on the Ordinary Shares and no Ordinary Shares or other junior shares may be purchased, redeemed, or otherwise acquired for consideration by the Company.

The following table summarizes the activity in our Perpetual Preferred Shares during the six month period ended June 30, 2013 and the year ended December 31, 2012:

	Six Month Period Ended June 30, 2013	Year Ended December 31, 2012
Perpetual Preferred Shares		
Beginning of year	3,246,776	4,806,083
Perpetual Preferred Shares redeemed	-	(1,559,307)
End of period/year	3,246,776	3,246,776

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.

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.

9. Shareholders' Deficit (continued)

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 the Company for the year ended December 31, 2012.

Dividends on Ordinary Shares

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

On December 12, 2012, our Board resolved to declare and pay dividends on the Ordinary Shares in the amount of $34.4 million, and such dividends were paid on December 20, 2012.

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

Dividends on Perpetual Preferred Shares

Although permitted in accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares to declare and pay a dividend in connection with each of the 2011 dividend payment dates and 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 the Perpetual Preferred Shares 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, consecutive or not (a "Nonpayment"). Failure to declare and pay dividends on the July 15, 2009 dividend payment date marked the sixth dividend period for which dividends had not been declared and paid (i.e., a Nonpayment), as our Board was precluded from declaring and paying dividends on each of the 2009 and 2010 dividend payment dates in accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares.

On September 24, 2012, our Board resolved to declare and pay a dividend on the Perpetual Preferred Shares in accordance with the related Certificate of Designations. The amount of the dividend declared was $1.2 million and the dividend was paid on the October 15, 2012 dividend payment date. There can be no assurances when or whether we will make subsequent dividend payments on the Perpetual Preferred Shares, either at our Board's discretion or as a result of the application of the financial tests contained in the terms of the Perpetual Preferred Shares.

In accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares, our Board was precluded from declaring and paying a dividend on the January 15, 2013 and April 15, 2013 dividend payment dates.

If and when dividends for at least four dividend periods, whether or not consecutive, following a Nonpayment have been paid in full, then the right of the holders of the Perpetual Preferred Shares to elect two directors to the Company's Board shall cease. This right has not been exercised as of June 30, 2013.

For further discussion on the non-declaration of the Perpetual Preferred Shares dividends, please refer to Note 13, "Subsequent Events – *Non-declaration of Dividend on Perpetual Preferred Shares*".

10. Income Taxes

The income tax benefit for the six month period ended June 30, 2013 and 2012 was $5.3 million and $8.9 million, respectively. Any net income from the operations of our Cayman Island entities are not subject to income tax. The operations of our U.S., Bermuda and Irish entities did not generate a current tax expense, other than interest and penalties on accrued tax liabilities, due to the operating performance and the availability of tax losses from prior tax years. The utilization of tax losses results in a reduction in deferred tax assets and a corresponding reduction in the valuation allowance established against those deferred tax assets. The income tax benefit for the six month periods ended June 30, 2013 and 2012 were principally due to a reduction of the deferred tax liability for items reversing outside of the 15 year net operating loss ("NOL") carryforward period in the U.S.

As of June 30, 2013, we had total unrecognized tax benefits (excluding interest and penalties) of $3.1 million, the recognition of which would result in a $1.5 million benefit at the effective tax rate for the applicable period. The total unrecognized tax benefits figure (excluding interest and penalties) and the resulting tax benefit recognition figure were unchanged from December 31, 2012. As of June 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.

As of June 30, 2013 and December 31, 2012, our deferred tax liabilities included $37.4 million and $43.1 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 June 30, 2013, 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")	2010 through 2012
Non-Life Group	2009 through 2012
Ireland	2008 through 2012

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

Net U.S. operating losses are being carried forward from closed years and could be examined by an Internal Revenue Service ("IRS") when utilized in an open year in the future. Additionally, to the extent that a NOL 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.

Further information regarding recent IRS activity is discussed in Note 14, "Income Taxes", in the Company's audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2012.

11. 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 the Company's audited consolidated financial statements for the year ended December 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. As of June 30, 2013, 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.

12. 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 June 30, 2013, SALIC had invested $16.3 million of its total commitment, which investment is included in Other Investments on the accompanying Consolidated Balance Sheets at a carrying value of $19.8 million.

13. Subsequent Events

The subsequent events disclosed in these notes to the consolidated financial statements have been evaluated by Company management up to and including the filing of these consolidated financial statements on August 22, 2013.

Non-declaration of Dividends on Perpetual Preferred Shares

In accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares, our Board was precluded from declaring and paying a dividend on the Perpetual Preferred Shares on the July 15, 2013 dividend payment date.

Merger of Subsidiaries

On January 14, 2013, SRUS and its wholly-owned subsidiary, SRLC, entered into an Agreement and Plan of Merger. Upon the terms and subject to the conditions therein, including receipt of all required approvals, and in accordance with the provisions of Section 253 of the Delaware General Corporation Law and Section 4930 of the Delaware Insurance Code, SRLC would be merged with and into SRUS, with SRUS continuing as the surviving

13. Subsequent Events (continued)

corporation (the "SRUS/SRLC Merger"). From and after the effective date of the SRUS/SRLC Merger (the "Effective Date"), SRUS, as the surviving corporation in the SRUS/SRLC Merger, would be responsible and liable for all of the liabilities and obligations of SRUS and SRLC existing as of the Effective Date, and all policies of insurance and contracts and agreements of reinsurance or retrocession assumed or issued by SRLC, or pursuant to which SRLC was a party will, as of the Effective Date, become policies of insurance and contracts and agreements of reinsurance or retrocession (as the case may be) of SRUS. Approval of the Merger from the Insurance Commissioner of the State of Delaware was received on May 8, 2013, and from the Insurance Commissioner of the State of California on July 12, 2013. The Effective Date of the SRUS/SRLC Merger was July 30, 2013. The SRUS/SRLC Merger will have no effect on the Company's consolidated financial position and results of operations.

Orkney Re II

Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes on the August 11, 2013 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 $0.7 million.

Deferral of Interest Payments on the Capital and Trust Preferred Securities

Subsequent to June 30, 2013, we have accrued and deferred payment of an additional $0.2 million of interest on our Capital and Trust Preferred Securities (as outlined in Note 7, "Debt Obligations and Other Funding Arrangements"). These deferrals are permitted by terms of the indentures governing the Capital and Trust Preferred Securities and have been made at the discretion of our Board. As of August 22, 2013, we had accrued and deferred a net payment on a total of $3.0 million of interest on our Capital and Trust Preferred Securities.