SCOTTISH RE GROUP LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(These financial statements are unaudited.)

Table of Contents

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

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
ASSETS		
Fixed-maturity investments held as trading securities, at fair value	$ 2,042,473	$ 3,111,724
Preferred stock held as trading securities, at fair value	59,909	67,897
Cash and cash equivalents	228,355	417,722
Other investments	14,727	16,459
Funds withheld at interest	561,090	584,617
Total investments[1]	2,906,554	4,198,419
Accrued interest receivable[2]	17,313	22,286
Reinsurance balances receivable	100,579	131,315
Deferred acquisition costs	178,176	269,352
Amounts recoverable from reinsurers	806,337	564,869
Present value of in-force business	28,348	31,941
Other assets	9,178	22,988
Total assets	$ 4,046,485	$ 5,241,170
LIABILITIES		
Reserves for future policy benefits	$ 1,427,902	$ 1,477,594
Interest-sensitive contract liabilities	1,331,734	1,415,580
Collateral finance facilities[3]	450,000	1,300,000
Accounts payable and other liabilities	64,316	54,827
Embedded derivative liabilities, at fair value	31,462	32,545
Reinsurance balances payable	84,590	91,634
Deferred tax liability	31,185	44,189
Long-term debt, at par value	129,500	129,500
Total liabilities	3,550,689	4,545,869
MEZZANINE EQUITY		
Convertible cumulative participating preferred shares (liquidation preference: $791.6 million)	555,857	555,857
SHAREHOLDERS' (DEFICIT) EQUITY		
Ordinary shares, par value $0.01:		
Issued and outstanding - 68,383,370 shares in 2011 and 2010	684	684
Non-cumulative perpetual preferred shares, par value $0.01:		
Issued: 5,000,000 shares (outstanding: 2011 and 2010 – 4,806,083)	120,152	120,152
Additional paid-in capital	1,218,190	1,217,894
Retained deficit	(1,407,285)	(1,208,286)
Total Scottish Re Group Limited shareholders' (deficit) equity	(68,259)	130,444
Noncontrolling interest	8,198	9,000
Total (deficit) equity	(60,061)	139,444
Total liabilities, mezzanine equity and total (deficit) equity	$ 4,046,485	$ 5,241,170
[1] Includes total investments of consolidated variable interest entities ("VIEs")	$ 280,170	$ 1,108,193
[2] Includes accrued interest receivable of consolidated VIEs	482	1,040
[3] Reflects collateral finance facilities of consolidated VIEs	450,000	1,300,000

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 months ended		Nine months ended	
	September 30, 2011	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Revenues				
Premiums earned, net	$ 67,059	$ 98,177	$ 209,701	$ 317,869
Fee and other income	779	1,432	3,340	4,221
Investment income, net	32,390	41,014	106,193	129,591
Net realized and unrealized (losses) gains	(15,276)	88,964	9,726	255,372
Change in value of long-term debt at fair value	-	-	-	(15,246)
Gain on extinguishment of debt	-	-	260,000	-
Change in fair value of embedded derivatives assets and liabilities	(4,559)	(3,087)	1,082	(2,655)
Total revenues	80,393	226,500	590,042	689,152
Benefits and expenses				
Claims, policy benefits, and changes in policyholder reserves, net	84,524	79,125	256,813	291,887
Interest credited to interest-sensitive contract liabilities	11,743	14,003	36,089	40,585
Amortization of deferred acquisition costs and other insurance expenses, net	11,476	28,931	446,589	65,812
Operating expenses	9,624	11,812	33,694	41,755
Collateral finance facilities expense	2,372	10,659	22,794	26,606
Interest expense	1,518	1,399	4,640	4,021
Total benefits and expenses	121,257	145,929	800,619	470,666
(Loss) income before income taxes	(40,864)	80,571	(210,577)	218,486
Income tax (expense) benefit	(71)	3,016	10,776	39,445
Net (loss) income	(40,935)	83,587	(199,801)	257,931
Net loss (income) attributable to noncontrolling interest	221	(1,181)	802	(1,872)
Net (loss) income attributable to Scottish Re Group Limited	$ (40,714)	$ 82,406	$ (198,999)	$ 256,059

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)

	Nine months ended	
	September 30, 2011	**September 30, 2010**
Share capital:		
Ordinary shares:		
Beginning of period	$ 684	$ 684
Merger activity, net	-	-
End of period	684	684
Non-cumulative perpetual preferred shares:		
Beginning of period	120,152	125,000
Non-cumulative perpetual preferred shares redeemed	-	(4,848)
End of period	120,152	120,152
Additional paid-in capital:		
Beginning of period	1,217,894	1,217,535
Option expense	296	520
End of period	1,218,190	1,218,055
Retained deficit:		
Beginning of period	(1,208,286)	(1,447,375)
Net (loss) income attributable to Scottish Re Group Limited	(198,999)	256,059
Gain on redemption of non-cumulative perpetual preferred shares	-	3,878
End of period	(1,407,285)	(1,187,438)
Total Scottish Re Group Limited shareholders' (deficit) equity	$ (68,259)	$ 151,453
Noncontrolling interest:		
Beginning of period	9,000	7,668
Net (loss) income	(802)	1,872
End of period	8,198	9,540
Total shareholders' (deficit) equity	$ (60,061)	$ 160,993

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

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

(Expressed in Thousands of United States Dollars)

	Nine months ended	
	September 30, 2011	**September 30, 2010**
Operating activities		
Net (loss) income	$ (199,801)	$ 257,931
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Net realized and unrealized gains	(9,726)	(255,372)
Change in value of long-term debt, at fair value	-	15,246
Changes in value of embedded derivative assets and liabilities	(1,082)	2,655
Amortization of deferred acquisition costs	9,813	24,467
Amortization of present value of in-force business	3,593	5,120
Amortization of deferred transaction costs	10,479	4,627
Depreciation of fixed assets	168	341
Option expense	296	520
Adjustments attributed to the Orkney I Unwind Transaction:		
Gain on extinguishment of debt	(260,000)	-
Release of deferred acquisition costs	83,204	-
Net increase in receivables and amounts recoverable from reinsurers	(252,388)	-
Changes in assets and liabilities:		
Funds withheld at interest	23,527	26,087
Accrued interest receivable	4,973	637
Reinsurance balances receivable	30,736	38,141
Deferred acquisition costs	(1,841)	(1,967)
Other assets	6,821	60,077
Reserves for future policy benefits, net of amounts recoverable from reinsurers	(38,772)	(52,448)
Interest-sensitive contract liabilities	(2,695)	(2,197)
Accounts payable and other liabilities	(3,514)	(23,468)
Reinsurance balances payable	(7,044)	(24,453)
Net cash (used in) provided by operating activities	(603,253)	75,944
Investing activities		
Purchase of fixed-maturity investments	(286,009)	(688,251)
Proceeds from sales and maturity of fixed-maturity investments	1,360,865	607,780
Proceeds from sale and maturity of preferred stock	8,239	(1,847)
Purchase of and proceeds from other investments	1,731	11,380
Proceeds from sale of fixed investments	153	867
Net cash provided by (used in) investing activities	1,084,979	(70,071)
Financing activities		
Payments on collateral finance facilities	(590,000)	-
Withdrawals from interest-sensitive contract liabilities	(81,093)	(82,187)
Redemption of non-cumulative perpetual preferred shares	-	(970)
Deemed capitalization of Merger Sub by Investors prior to Merger	17,647	-
Payment of Merger consideration by Investors on behalf of Merger Sub	(17,647)	-
Net cash used in financing activities	(671,093)	(83,157)
Net change in cash and cash equivalents	$ (189,367)	$ (77,284)
Cash and cash equivalents, beginning of period	417,722	390,025
Cash and cash equivalents, end of period	$ 228,355	$ 312,741

See Accompanying Notes to Consolidated Financial Statements (Unaudited)

1. Organization and Business

Organization

Scottish Re Group Limited ("SRGL", the "Company", "we", "our", and "us") is a holding company incorporated under the laws of the Cayman Islands, and our principal executive office is located in Bermuda. Through our operating subsidiaries, we are principally engaged in the reinsurance of life insurance, annuities, and annuity-type products. Our principal operating companies, holding companies, and collateral finance facilities are located in Bermuda, the Cayman Islands, Ireland, 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>United States</u>
Scottish Holdings, Inc. ("SHI")
Scottish Re (U.S.), Inc. ("SRUS")
Scottish Re Life Corporation ("SRLC")
Orkney Holdings, LLC ("OHL")
Orkney Re, Inc. ("Orkney Re" and, together with OHL, "Orkney I")

Both OHL and Orkney Re are in the process of dissolution following the completion of the Orkney I Unwind Transaction. As a result, we no longer consolidate these two dormant companies. Refer to Note 7, "Collateral Finance Facilities", for information regarding the Orkney I Unwind Transaction (as defined in Note 7) that we consummated on May 27, 2011.

On August 24, 2011, the Merger (as defined in Note 9) was completed, and, as a result, we are now a privately-held company. The Merger has been treated for purposes of these consolidated financial statements as a business combination. Refer to Note 9, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares", for information regarding the Merger.

Run-Off Strategy

As disclosed in the consolidated financial statements and accompanying notes thereto for the year ended December 31, 2010, 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.

While pursuing our run-off strategy, the Company may, if opportunities arise, purchase in privately-negotiated transactions, open market purchases, or by means of general solicitations, tender offers, or otherwise, additional amounts of our outstanding securities and other liabilities. Any such purchases will depend on a variety of factors including, but not limited to, available corporate liquidity, capital requirements, and indicative pricing levels. The amounts involved in any such transactions, individually or in the aggregate, may be material. For further discussion on our outstanding securities, refer to Note 8, "Debt Obligations and Other Funding Arrangements", and to Note 10, "Shareholders' (Deficit) Equity". Further, the Company continues to evaluate ways to increase enterprise value,

1. Organization and Business (continued)

including consideration from time to time of transactions for the sale or disposition of our businesses or assets, which transactions, individually or in the aggregate, may be material. Refer to Note 7, "Collateral Finance Facilities", for information regarding the Orkney I Unwind Transaction that we consummated on May 27, 2011.

Regulatory Considerations

We had been operating since 2009 with certain regulatory constraints with respect to SRUS, our primary U.S. reinsurance subsidiary. In connection with the receipt by SRUS in late 2008 of a permitted statutory accounting practice (the "Permitted Practice"), SRUS and the Delaware Department of Insurance (the "Department") agreed to the formal supervision of SRUS and that such supervision would likely continue for as long as the Permitted Practice remained in place. SRUS consented to the issuance by the Department on January 5, 2009, of an Order of Supervision for SRUS (the "Order of Supervision"), and the original Order of Supervision subsequently was amended and replaced with an Extended and Amended Order of Supervision, dated April 3, 2009 (the "Amended Order").

By its terms, the Amended Order was to remain in place until such time as SRUS could make certain enumerated showings to the Department related to its financial strength and results of operations.

By Order dated June 23, 2011, the Department determined that its supervision of SRUS no longer was required and formally released SRUS from the Amended Order, effective immediately. Concurrent with the release of the Amended Order, SRUS ceased utilizing the Permitted Practice.

Business

As disclosed in the consolidated financial statements and accompanying notes thereto for the year ended December 31, 2010, 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 and as Financial Solutions.

2. Basis of presentation

Accounting Principles - Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, these consolidated interim financial statements do not include all the information and footnotes 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, 2010.

Consolidation - The consolidated financial statements include the assets, liabilities, and results of operations of SRGL, its subsidiaries, and all variable interest entities for which we are the primary beneficiary, as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810-10, Consolidation – Overall ("FASB ASC 810-10"). All significant inter-company transactions and balances have been eliminated in consolidation. We consolidated Merger Sub, as defined in Note 9, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares", 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. We consummated the Orkney I Unwind Transaction on May 27, 2011, and, as a result, we no longer consolidate Orkney I, a Delaware limited liability company. For further discussion of Orkney I, the Orkney I Unwind Transaction, and Orkney Re II, refer to Note 7, "Collateral Finance Facilities".

Going Concern - These consolidated interim financial statements and the annual consolidated financial statements as of December 31, 2010 have been prepared using accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course

2. Basis of presentation (continued)

of business. Our ability to continue as a going concern had been dependent upon our ability to comply with the Department's Amended Order for SRUS. Effective June 23, 2011, the Department released SRUS from the Department's Amended Order. The Report of Independent Auditors on the Company's consolidated financial statements for the year ended December 31, 2010 contained an emphasis paragraph that referred to the substantial doubt about the Company's ability to continue as a going concern and that report remains unchanged.

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.

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) are not relevant to financial 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 are currently evaluating the impact of the adoption of ASU No. 2011-04 on our financial position and results of operations.

Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220) – Presentation of Comprehensive Income

In June 2011, the FASB issued new guidance on the presentation of comprehensive income that will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. The new guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The new guidance does not change the items that must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. The new guidance is to be applied retrospectively, effective for fiscal years and interim periods within those years beginning after December 15, 2011. For non-public companies, this new guidance is effective for fiscal years ending after December 15, 2012 and for interim and annual periods thereafter,

3. Recent Accounting Pronouncements (continued)

though early adoption is permitted. Because this guidance impacts presentation only, it will have no effect on the Company's consolidated financial position and results of operations.

4. Investments

The portion of net unrealized gains and losses for the three months ended September 30, 2011 and 2010 that relates to trading securities still held at the reporting date was $16.4 million of net losses and $78.9 million of net gains, respectively.

The amount of net unrealized gains for the nine months ended September 30, 2011 and 2010 that relates to trading securities still held at the reporting date was $4.4 million and $218.9 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, 2010, 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:

	September 30, 2011			
(U.S. dollars in millions)	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments				
Government securities	$ 33.9	$ -	$ 33.9	$ -
Corporate securities	982.4	-	890.1	92.3
Municipal bonds	56.6	-	51.0	5.6
Mortgage and asset-backed securities	969.6	-	617.2	352.4
Fixed-maturity investments	2,042.5	-	1,592.2	450.3
Preferred stock	59.9	-	8.4	51.5
Total assets at fair value	$ 2,102.4	$ -	$ 1,600.6	$ 501.8
Embedded derivative liabilities for Funds withheld at interest	(31.5)	-	-	(31.5)
Total liabilities at fair value	$ (31.5)	$ -	$ -	$ (31.5)

5. Fair Value Measurements (continued)

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

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 nine month period ended September 30, 2011

(U.S. dollars in millions)	Government securities	Corporate securities	Municipal bonds	Mortgage and asset-backed securities	Preferred stock	Embedded derivative liabilities, net, for Funds withheld at interest	Total
Beginning balance at January 1, 2011	$ -	$ 128.5	$ -	$ 530.2	$ 56.0	$ (32.5)	$ 682.2
Total realized and unrealized gains (losses) included in net income	-	(1.9)	1.3	(10.2)	0.5	1.0	(9.3)
Purchases	-	19.6	-	6.8	-	-	26.4
Issuances	-	-	-	-	-	-	-
Settlements	-	(39.2)	(0.1)	(128.2)	(5.0)	-	(172.5)
Transfers in and/or out of Level 3, net	-	(14.7)	4.4	(46.2)	-	-	(56.5)
Ending balance at September 30, 2011	$ -	$ 92.3	$ 5.6	$ 352.4	$ 51.5	$ (31.5)	$ 470.3

5. Fair Value Measurements (continued)

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

(U.S. dollars in millions)	Government securities	Corporate securities	Municipal bonds	Mortgage and asset-backed securities	Preferred stock	Embedded derivative liabilities	Total
Beginning balance at January 1, 2010	$ 0.2	$ 133.3	$ -	$ 472.8	$ 53.4	$ (35.7)	$ 624.0
Total realized and unrealized (losses) gains included in net income	(0.2)	3.8	-	117.1	2.7	3.2	126.6
Purchases	-	40.1	9.9	34.3	-	-	84.3
Issuances	-	-	-	-	-	-	-
Settlements	-	(56.0)	-	(95.2)	-	-	(151.2)
Transfers in and/or out of Level 3, net	-	7.3	(9.9)	1.2	(0.1)	-	(1.5)
Ending balance at December 31, 2010	$ -	$ 128.5	$ -	$ 530.2	$ 56.0	$ (32.5)	$ 682.2

Changes in classifications impacting Level 3 financial instruments 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 losses for the three and nine months ended September 30, 2011 that relates to Level 3 trading securities still held at the reporting date was $22.3 million and $17.5 million, respectively.

6. 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 in Note 5, “Fair Value Measurements”, 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, 2010, which also includes additional disclosures regarding our fair value measurements. The following table sets forth our assets and liabilities that were measured at fair value on a non-recurring basis, in accordance with the framework established under FASB ASC 820, as of the dates indicated:

	September 30, 2011		December 31, 2010	
(U.S. dollars in thousands)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Assets				
Fixed-maturity investments	$ 2,042,473	$ 2,042,473	$ 3,111,724	$ 3,111,724
Preferred stock	59,909	59,909	67,897	67,897
Other investments	14,727	14,727	16,459	16,459
Funds withheld at interest	561,090	561,090	584,617	584,617
Liabilities				
Interest-sensitive contract liabilities	$ 1,331,734	$ 1,315,734	$ 1,415,580	$ 1,398,365
Collateral finance facilities	450,000	58,207	1,300,000	659,713
Embedded derivative liabilities	31,462	31,462	32,545	32,545
Long-term debt, at par value	129,500	63,507	129,500	61,072

7. Collateral Finance Facilities

The following tables reflect the significant balances included in the Consolidated Balance Sheets that were attributable to the collateral finance facilities and securitization structures providing collateral support to the Company:

	September 30, 2011
(U.S. dollars in millions)	**Orkney Re II**
Assets	
Funds withheld at interest	$ 356.6
Cash and cash equivalents	1.2
All other assets	54.6
Total assets	$ 412.4
Liabilities	
Reserves for future policy benefits	$ 129.2
Collateral finance facilities	450.0
All other liabilities	25.9
Total liabilities	$ 605.1

7. Collateral Finance Facilities (continued)

	December 31, 2010		
(U.S. dollars in millions)	**Orkney I**	**Orkney Re II**	**Total**
Assets			
Fixed-maturity investments	$ 1,081.7	$ -	$ 1,081.7
Funds withheld at interest	-	334.5	334.5
Cash and cash equivalents	113.5	1.5	115.0
All other assets	106.0	54.4	160.4
Total assets	$ 1,301.2	$ 390.4	$ 1,691.6
Liabilities			
Reserves for future policy benefits	$ 318.6	$ 123.9	$ 442.5
Collateral finance facilities	850.0	450.0	1,300.0
All other liabilities	19.9	19.5	39.4
Total liabilities	$ 1,188.5	$ 593.4	$ 1,781.9

The assets listed in the foregoing tables are subject to a variety of restrictions on their use, as set forth in, and governed by, the transaction documents for the applicable collateral finance facilities and securitization structures to which they relate. The total investments of consolidated VIEs disclosed on the Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, respectively, differ from the amounts shown in the above tables because the assets needed, based on current projections, to satisfy future policy benefits have been deducted in the determination of the total investments of consolidated VIEs disclosed on the Consolidated Balance Sheets. No assurances can be given that the expected reinsurance liabilities will not increase in the event of adverse mortality experience in our reinsurance agreements. Under certain circumstances, such adverse mortality experience may in future periods increase the amount of assets excluded from the total investments of consolidated VIE on the Consolidated Balance Sheets. The reinsurance liabilities of Orkney I and Orkney Re II have been eliminated from the Consolidated Balance Sheets because they represent inter-company transactions.

Orkney I

On February 11, 2005, OHL issued and sold, in a private offering, an aggregate of $850 million Series A Floating Rate Insured Notes due February 11, 2035 (the "Orkney Notes"). OHL was organized for the limited purpose of issuing the Orkney Notes and holding the stock of Orkney Re, originally a South Carolina special purpose financial captive insurance company, now a Delaware special purpose captive insurance company. SRUS 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, and reinsured by SRUS to Orkney Re. Proceeds from the Orkney Notes were deposited into a series of accounts that collateralize the notes and the reserve obligations of SRUS.

7. Collateral Finance Facilities (continued)

Initially, in accordance with FASB ASC 810-10, Orkney I was considered to be a variable interest entity, and we were considered to hold the primary beneficial interest (because all of the business assumed by Orkney Re had been ceded by us), following an analysis whereby it was determined that we would absorb a majority of the expected losses. As a result, Orkney I was consolidated in our financial statements through December 31, 2010. Following the Orkney I Unwind Transaction, there were no assets or liabilities remaining in Orkney I and we determined that we are no longer the primary beneficiary. As a result, we no longer consolidated Orkney I as of June 30, 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 Re the defined block of level premium term life insurance policies issued by direct ceding companies between January 1, 2000 and December 31, 2003 (such defined block, the “Orkney Block”, and such transactions, as further discussed below, the “Orkney I Unwind Transaction”). The Orkney I Unwind Transaction was accomplished on May 27, 2011 in part pursuant to the Settlement and Release Agreement, dated as of April 15, 2011, by and among Orkney Re, OHL, SRUS, SRGL, MBIA Insurance Corporation (the financial guarantor of the Orkney Notes) (“MBIA”), and the investment manager for the Orkney I transaction (the “Settlement Agreement”). Contemporaneous with the transactions contemplated by the Settlement Agreement, 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 reasonable best efforts to work with Hannover Life Re and the direct writers of the related business to obtain full novations of the reinsurance treaties from SRUS to Hannover Life Re such that SRUS no longer will be a party to such reinsurance treaties following such novations.

On the date of the closing of these transactions, SRUS affected the Orkney Recapture and received recapture consideration from Orkney Re, which recapture consideration was used in part to fund the ceding commission of $565 million due from SRUS to Hannover Life Re under the New Reinsurance Agreement. All assets thereafter remaining in the accounts at Orkney Re were released to OHL. The remaining assets were used by OHL to purchase all of the outstanding Orkney Notes pursuant to privately negotiated purchase agreements (the “Note Purchase Agreements”) for an aggregate amount of $590.0 million, which represented a discount to the aggregate principal amount of $850.0 million of the Orkney Notes. Following the repurchase of the Orkney Notes, OHL immediately cancelled the Orkney Notes and thereafter paid a dividend of its remaining assets to its parent, SRUS.

Approximately $700 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, MassMutual Capital Partners LLC, a member of the MassMutual Financial Group (“MassMutual Capital”), Cerberus and certain other 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 Department, 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. Due to the New Reinsurance Agreement with Hannover Life Re being effective

7. Collateral Finance Facilities (continued)

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. The following tables illustrate the impact of the Orkney I Unwind transaction on SRGL's consolidated balance sheet and statement of operations:

Impact of the Orkney I Unwind Transaction
Condensed Consolidated Balance Sheet

(U.S. dollars in thousands)	September 30, 2011
ASSETS	
Total investments	$ (1,175,334)
Deferred acquisition costs	(83,204)
Receivables and amounts recoverable from reinsurers	252,388
Other assets	(1,002)
Total assets	$ (1,007,152)
LIABILITIES	
Collateral finance facilities	$ (850,000)
Other liabilities	(3,860)
Total liabilities	$ (853,860)
SHAREHOLDERS' (DEFICIT)	(153,292)
Total liabilities, and shareholders' (deficit)	$ (1,007,152)

7. Collateral Finance Facilities (continued)

Impact of the Orkney I Unwind Transaction
Condensed Statement of Operations

(U.S. dollars in thousands)	Nine Months Ended September 30, 2011
Revenues	
Gain on extinguishment of debt	$ 260,000
Total revenues	$ 260,000
Benefits, expenses, and taxes	
Amortization of deferred acquisition costs and other insurance expenses, net	$ 411,374
Collateral finance facilities expense	10,227
Operating expenses	280
Income tax benefit	(8,589)
Total benefits, expenses, and taxes	$ 413,292
Net loss attributable to Scottish Re Group Limited	$ (153,292)

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 of business and is contractually obligated to utilize commercially reasonable efforts to facilitate the novation of the underlying business from the Company to Hannover Life Re.

Orkney Re II

On December 21, 2005, Orkney Re II, whose issued ordinary shares are held by a share trustee and its nominees in trust for charitable purposes, issued, in a private offering, $450 million of debt primarily to external investors. The debt consisted of $382.5 million of Series A-1 Floating Rate Guaranteed Notes (the "Series A-1 Notes"), $42.5 million of Series A-2 Floating Rate Notes (the "Series A-2 Notes"), and $25 million of Series B Floating Rate Notes (the "Series B Notes"), all due December 31, 2035 (collectively, the "Orkney Re II Notes"). In addition to $5 million of the Series B Notes, Orkney Re II also issued to SALIC $30 million of Series C Floating Rate Notes ("Series C Notes") due December 21, 2036. The Series C Notes accrue interest only until the Orkney Re II Notes are fully repaid. SRGL owns $0.5 million of Orkney Re II Series D Convertible Notes due December 21, 2036, and 76,190,000 Preference Shares of Orkney Re II of $1.00 each in capital. 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.

Orkney Re II Event of Default, Acceleration and Foreclosure

On the scheduled interest payment date of May 11, 2009, Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes. Failure to make such payments in full when due constituted an event of default under the Orkney Re II indenture ("Orkney Re II EOD"). Assured 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 will continue to have, certain enhanced contractual rights under the transaction documents, and additional fees will be accrued for the guarantee coverage.

7. Collateral Finance Facilities (continued)

The enhanced contractual rights of Assured are described in Note 9, "Collateral Finance Facilities and Securitization Structures" in the consolidated financial statements and accompanying notes thereto for the year ended December 31, 2010.

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 September 30, 2011, Assured made guarantee payments on the Series A-1 Notes in the cumulative amount of $7.2 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 that Assured is making guarantee payments of is payable quarterly at a rate equivalent to three-month LIBOR plus 0.425% for the Series A-1 Notes. As of September 30, 2011, the interest rate on the a) Series A-1 Notes was 0.70% (compared to 0.71% as of December 31, 2010. For further discussion on the Orkney Re II scheduled interest payments on the Series A-1 Notes, refer to Note 13, "Subsequent Events".

8. Debt Obligations and Other Funding Arrangements

Long-term debt, at par value (the "Capital and Trust Preferred Securities"), consisted of:

(U.S. dollars in thousands)	September 30, 2011	December 31, 2010
Capital securities due 2032*	$ 17,500	$ 17,500
Preferred trust securities due 2033*	20,000	20,000
Trust preferred securities due 2033*	10,000	10,000
Trust preferred securities due 2034*	32,000	32,000
Trust preferred securities due December 2034*	50,000	50,000
Long-term debt, at par value	$ 129,500	$ 129,500

**Defined in the consolidated financial statements and accompanying notes thereto for the year ended December 31, 2010.*

8. Debt Obligations and Other Funding Arrangements (continued)

(U.S. dollars in thousands)	Capital Securities Due 2032*	Preferred Trust Securities Due 2033*	Trust Preferred Securities Due 2033*	Trust Preferred Securities Due 2034*	Trust Preferred Securities Due December 2034*
Issuer of long-term debt	Capital Trust*	Capital Trust II*	GPIC Trust*	Capital Trust III*	SFL Trust I*
Long-term debt outstanding	$17,500	$20,000	$10,000	$32,000	$50,000
Maturity date	Dec 4, 2032	Oct 29, 2033	Sept 30, 2033	June 17, 2034	Dec 15, 2034
Redeemable (in whole or in part) after	Dec 4, 2007	Oct 29, 2008	Sept 30, 2008	June 17, 2009	Dec 15, 2009
Interest Payable	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Interest rate: 3-month LIBOR +	4.00%	3.95%	3.90%	3.80%	3.50%
Interest rate as of September 30, 2011	4.37%	4.32%	4.27%	4.17%	3.87%
Interest rate as of December 31, 2010	4.30%	4.25%	4.20%	4.10%	3.80%
Maximum number of quarters for which interest may be deferred	20	20	20	20	20
Number of quarters for which interest has been deferred as of September 30, 2011	11	11	11	11	11
Maximum deferral date	Dec 4, 2032	Oct 29, 2033	Sept 30, 2033	June 17, 2034	Dec 15, 2034

**Defined in the consolidated financial statements and accompanying notes thereto for the year ended December 31, 2010.*

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 September 30, 2011, we have accrued and deferred payment of $16.0 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 September 30, 2011, refer to Note 13, “Subsequent Events”.

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 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

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

Preferred Shares. As of September 30, 2011, the amount of dividends accreted pursuant to the terms of the Convertible Cumulative Participating Preferred Shares is $191.6 million in the aggregate, or $192 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 consolidated financial statements and accompanying notes thereto for the year ended December 31, 2010, which also includes disclosures regarding redemption and a change-of-control event.

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).

In connection with a closing of the Merger, the Investors were required to release 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 12, "Commitments and Contingencies-*Indemnification*".

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

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

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. 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 nine months ended September 30, 2011 and year the ended December 31, 2010:

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
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 year	68,383,370	68,383,370

***** *Refer to Note 9, "Mezzanine Equity – Convertible Cumulative Participating Preferred Shares", 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.

10. Shareholders' (Deficit) Equity (continued)

The following table summarizes the activity in our non-cumulative Perpetual Preferred Shares during the nine months ended September 30, 2011 and the year ended December 31, 2010:

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Non-cumulative Perpetual Preferred Shares		
Beginning of year	4,806,083	5,000,000
Non-cumulative Perpetual Preferred Shares redeemed	-	(193,917)
End of year	4,806,083	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 September 30, 2010 through September 30, 2011 ranged between 7.32% 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.

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", for information regarding the ordinary shares following the completion of the Merger.

Dividends on Perpetual Preferred Shares

On April 14, 2008, we announced that, given our current financial condition, our Board in its discretion had decided not to declare a dividend on our Perpetual Preferred Shares for the April 15, 2008 dividend payment date. In addition, we announced that, pursuant to the Certificate of Designations for our Perpetual Preferred Shares, our Board may be precluded from declaring and paying dividends on the October 15, 2008 dividend payment date in the event we did not meet certain financial tests under the terms of the Perpetual Preferred Shares required for us to pay such dividends, which tests subsequently were not met for such dividend payment date. On July 3, 2008, the Board determined that in light of our financial condition and in accordance with the terms of the forbearance agreements with the relevant counterparties to certain of our then outstanding collateral finance facilities, we would suspend the cash dividend for the July 15, 2008 payment date. In accordance with the relevant financial tests under the terms of the Perpetual Preferred Shares, our Board was precluded from declaring and paying dividends on each of the 2009 and 2010 dividend payment dates and, as a result, did not declare and pay a dividend on such dates. Although permitted under the terms of the Perpetual Preferred Shares to declare and pay a dividend in connection with the January 15, 2011, April 15, 2011, and July 15, 2011 dividend payment dates, the Board resolved not to declare and

10. Shareholders' (Deficit) Equity (continued)

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 September 30, 2011. For further discussion on the non-declaration of Perpetual Preferred Shares dividends, refer to Note 13, "Subsequent Events".

11. Income Taxes

The income tax expense/benefit for the three month and nine month periods ended September 30, 2011 was $0.1 million of income tax expense and $10.8 million of income tax benefit, respectively. The net income of our Bermuda and Cayman entities are not subject to income tax. The net income 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 nine months ended September 30, 2011 was principally due to a reduction in the valuation allowance that resulted from a decrease in our deferred acquisition costs that reverse after the expiration of net operating losses, which resulted from the Orkney I Unwind Transaction. For further discussion on the Orkney I Unwind Transaction, refer to Note 7, "Collateral Finance Facilities".

As of September 30, 2011, we had total unrecognized tax benefits (excluding interest and penalties) of $109.4 million, the recognition of which would result in a $4.0 million benefit at the effective tax rate for the applicable period. As of December 31, 2010, we had total unrecognized tax benefits (excluding interest and penalties) of $111.3 million, the recognition of which would result in a $3.5 million 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 have maintained a full valuation allowance against any remaining net deferred tax assets, given our inability to rely on future taxable income tax projections.

As of September 30, 2011, our deferred tax liabilities included $31.2 million of deferred tax liabilities that reverse after the expiration of net operating losses in applicable jurisdictions, and, therefore, cannot support deferred tax assets. As of December 31, 2010, the corresponding amount of deferred tax liabilities was $44.2 million.

We file our tax returns as prescribed by the tax laws of the jurisdictions in which we operate. As of September 30, 2011, we remained subject to examination in the following major tax jurisdictions for the returns filed for the years indicated below:

Major Tax Jurisdictions	Open Years
U.S.	
Life Group	2008 through 2010
Non-Life Group	2008 through 2010
Ireland	2007 through 2010

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

11. Income Taxes (continued)

year remains open. On March 30, 2011, SRUS was notified that the Internal Revenue Service will perform a limited scope examination of our consolidated U.S. life insurance tax returns for 2004, 2007, 2008, and 2009. As of September 30, 2011, this examination has been initiated and remains in progress.

12. Commitments and Contingencies

Indemnification

In connection with an examination of the statutory financial statements of certain of our operating insurance subsidiaries, and, specifically, the purchase accounting entries made in connection with the 2004 acquisition of the ING business, we determined that certain intercompany receivables and intercompany claims were not reflected in the statutory financial statements of SRUS and SRD in accordance with applicable statutory accounting practices. Management determined that, as a result of these errors, the statutory surplus for SRD was overstated on a cumulative basis at year-end 2004, 2005 and 2006, resulting in a restated statutory surplus at year-end 2006 of approximately $285 million, after giving effect to these corrections.

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

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

Pursuant to the Securities Purchase Agreement with the Investors (as described in more detail in the consolidated financial statements and accompanying notes thereto for the year ended December 31, 2010), we made certain representations and warranties regarding the statutory financial statements of each of our insurance subsidiaries, including SRD and SRUS, for the years ended 2003, 2004, and 2005 and, with respect to SRUS but not SRD, the first three quarters of 2006, including that these statements were prepared in conformity with applicable statutory accounting practices and fairly present, in accordance with such practices and in all material respects, the statutory financial condition of the relevant insurance subsidiary at the respective dates. In light of our discovery of the corrections described above, we notified the Investors, as required by the terms of the Purchase Agreement, of the misstatement of reported statutory surplus in SRD at year-end 2004 and year-end 2005 resulting in a cumulative overstatement for the two year period at year-end 2005 of approximately $70 million on an after-tax basis, and the understatement of statutory surplus in SRUS for the year ended December 31, 2005 of approximately $14.5 million on an after-tax basis. On November 16, 2007, the Investors responded by notifying us of their concern that the corrections described above may constitute breaches of certain of the representations and warranties made by us in the Purchase Agreement. Under the Purchase Agreement, in the event of a claim for losses resulting from a diminution in value, such losses would be determined by an independent investment banking firm of national reputation, agreed upon by us and the Investors, based on changes in the valuation of SRGL using the assumptions and models used by the Investors at the time of their decision to invest in us. Furthermore, should any claim for indemnification be made by the Investors, the Purchase Agreement provides that any decision regarding defending or settling such claim would be taken by a committee of independent directors of our Board of Directors. In their November 16, 2007 correspondence, the Investors requested that we convene a committee of independent directors. No action was taken by us or the Investors in respect of this claim since such time. We were not able to predict what the amount of any indemnifiable losses would be, if any, or what potential defenses or other limitations on indemnification would be available to us under those circumstances. Under the terms of the Purchase Agreement, any such indemnification claim would be satisfied by adjusting the conversion amount at which the Convertible Cumulative Participating Preferred Shares issued to the Investors would be convertible into our ordinary shares.

12. Commitments and Contingencies (continued)

Refer to Note 9, "Mezzanine Equity - Convertible Cumulative Participating Preferred Shares", for information regarding the Merger Agreement and the waiver of the indemnification claim by the Investors.

Ballantyne Re plc

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

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

As of September 30, 2011, we had no remaining direct loss exposure related to Ballantyne Re since our interests in the Ballantyne Re Class D Notes and Preferred Shares are valued at $0 and are classified as trading securities on the Consolidated Balance Sheets. The Class C Notes were contractually written-off during the fourth quarter of 2008.

SRUS remains liable for the accuracy and performance, as applicable, of its representations, warranties, covenants, and other obligations that relate to periods before the assignment and novation to Security Life of Denver Insurance Company of the reinsurance agreement with Ballantyne Re. In addition, the Company and SRUS remain responsible for certain ongoing covenants and indemnities made for the benefit of Ballantyne Re and the financial guarantors of certain of the notes issued by Ballantyne Re.

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.

French vs. Scottish Re

On December 1, 2010, Michael C. French, a former officer and director of the Company, filed a civil lawsuit against the Company, SRUS, and SRLC in the District Court for Dallas County, Texas. The lawsuit brought a claim for breach of contract based on Mr. French's alleged right to indemnification for defense costs being incurred by Mr. French in connection with a Securities and Exchange Commission enforcement action brought against him in New York federal court. On January 3, 2011, the defendants removed the case to the U.S. District Court for the Northern District of Texas. On January 10, 2011, the defendants moved to dismiss the action for lack of personal jurisdiction as to all of the defendants and for failure to state a claim against SRUS and SRLC. In the alternative, the defendants requested that the case be transferred to the U.S. District Court for the Southern District of New York. On June 9, 2011, the court denied a motion for partial judgment on the pleadings previously filed by Mr. French as premature with leave to refile, declined to transfer the case to the U.S. District Court for the Southern District of New York, and denied the defendants' motion to dismiss as to SRGL, but as to SRUS and SRLC ordered jurisdictional discovery with leave to refile the motion to dismiss following completion of such discovery. Mr. French thereafter voluntarily withdrew all claims against SRUS and SRLC, leaving SRGL as the only named defendant in the action. On July 21, 2011, the parties participated in a mediation as required under the case schedule

12. Commitments and Contingencies (continued)

established by the court. In connection with the mediation, the parties entered into an agreement on September 19, 2011 to settle the dispute. As a result, the matter is now resolved.

13. Subsequent Events

The subsequent events disclosed in these notes to the consolidated financial statements have been evaluated by management up to and including the publication of the financial statements on November 17, 2011.

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 October 15, 2011 dividend payment date.

Orkney Re II

On the scheduled interest payment date of November 14, 2011, Orkney Re II was unable to make scheduled interest payments on the Series A-1 Notes. As a result, Assured made guarantee payments on the Series A-1 Notes in the amount of $0.7 million.

Deferral of Interest Payments on the Capital and Trust Preferred Securities

Subsequent to September 30, 2011, we have accrued and deferred payment of an additional $0.2 million of interest on our floating rate capital securities and trust preferred securities. As of November 17, 2011, we have accrued and deferred payment on a total of $16.2 million of interest.