

Scottish Re Group Limited Signs Definitive Agreement For Sale of a Block of Business and Reports Other Material Developments

Introduction

Throughout the third and fourth quarters of 2008 and continuing into the first quarter of 2009, adverse capital and credit market conditions have negatively impacted the value of underlying collateral used to secure Scottish Re Group Limited's ("SRGL": Pink Sheets SKRRF, and together with its subsidiaries, the "Company") life reinsurance obligations and statutory reserves for its operating companies. Consequently, this has decreased the reserve credit permitted to be taken by the Company's insurance subsidiaries for reinsurance ceded to the Company's collateral finance facilities and to the Company's non-U.S. reinsurers and diminished the Company's available capital and liquidity. As a result, the Company has taken a number of actions to preserve its capital and liquidity in order to meet the Company's near-term obligations and to avoid bankruptcy proceedings or the rehabilitation/liquidation of the Company's U.S. operating subsidiaries.

The number and complexity of these transactions has resulted in the Company's inability to timely issue its consolidated financial statements in accordance with US generally accepted accounting principles ("GAAP"). At this time, although the Company continues to work diligently on completing its financial statements for the periods ended September 30, 2008 and December 31, 2008, it is unable to specify when it will be in a position to release such financial statements. This disclosure is intended to provide an update on the status of the Company. The financial information contained herein as of and for the periods ended September 30, 2008 is preliminary and has not been subject to review by the Company's independent public accountants. As a result, the financial information contained in this disclosure remains subject to change.

Sale of a Block of Life Reinsurance North America Business

As previously disclosed, the Company had been engaged in an extensive process to sell its entire Life Reinsurance North America Segment (the "North America Segment"). In October 2008, after an exhaustive process and following exclusive negotiations with a prospective buyer, a satisfactory transaction for the sale of the Company's entire North America Segment could not be reached, primarily as a result of the historic disruption in the financial markets. Thereafter, in an effort to find ways to address the Company's capital, liquidity and collateral needs and the concerns of regulators, the Company pursued the sale of a specific block of individual life reinsurance in its North American business. These efforts have culminated in the Company's announcement that it has entered into a definitive agreement (the "Purchase Agreement") on January 22, 2009, with subsidiaries of Hannover Rückversicherung AG ("Hannover"), to sell this block of business.

Pursuant to the Purchase Agreement, certain wholly-owned subsidiaries of Hannover (the “Buyers”) will purchase a block of individual life reinsurance business currently reinsured by various subsidiaries of SRGL (collectively with SRGL and certain subsidiaries of SRGL, the “Sellers”) under reinsurance agreements with the Sellers (the “Acquired Block”). This Acquired Block was acquired in 2004 by the Company from Security Life of Denver Insurance Company (“SLD”) and Security Life of Denver International Limited (“SLDI”, and together with SLD, the “ING Companies”) and consists primarily of term life reinsurance, universal life with secondary guarantees, and yearly renewable term business. When the Company originally purchased the Acquired Block in 2004, the ING Companies reinsured their individual life reinsurance business to the Company on a 100% indemnity reinsurance basis. A large portion of such business included guaranteed level premium term life insurance that was subject to the statutory reserve requirements of NAIC Actuarial Regulation XXX (“XXX Reserves”), and universal life policies with secondary guarantees subject to the reserve requirements of NAIC Actuarial Regulation AXXX. Under the Company’s 2004 agreement with the ING Companies, the ING Companies were obligated to maintain collateral for the Regulation XXX and AXXX reserve requirements of the Acquired Block for the duration of such requirements, and financial incentives were provided to encourage the Company to replace this financing with alternative third party financing.

The Acquired Block does not include business formerly reinsured from Scottish Re (U.S.), Inc. (“SRUS”) to Ballantyne Re as this business was novated and assigned to SLD effective October 1, 2008, as discussed more fully below. In connection with the Purchase Agreement, the ING Companies and certain of the Sellers will enter into recapture agreements (and, in specific instances, a novation of the reinsurance agreement) with respect to the Acquired Block, and the ING Companies and the Buyers will enter into new reinsurance agreements with respect to the Acquired Block immediately thereafter. These recapture and reinsurance transactions have an effective date of January 1, 2009.

The Purchase Agreement also relates to the purchase and sale of certain assets currently used by the Sellers in connection with their administration of the Acquired Block (the “Transferred Assets”) and the transfer of certain employees from the Sellers to the Buyers in connection therewith. In addition, the Buyers have entered into administrative service agreements with the Sellers and the ING Companies, in which the Buyers will administer the Acquired Block as well as the business retained by the Sellers and provide certain administrative services to the ING Companies.

In accordance with the Purchase Agreement, payments will be made, by net transfer, as follows: (i) the Sellers will make recapture payments to the ING Companies in an aggregate amount equal to \$1.325 billion (adjusted for interim period earnings from January 1, 2009 to the date of closing), (ii) the ING Companies will make initial premium payments to the Buyers in an aggregate amount equal to \$1.325 billion (adjusted for interim period earnings from January 1, 2009 to the date of closing), and (iii) the Buyers will make a payment to the Sellers in respect of the Transferred Assets in an amount equal to \$18 million.

Following the transfer of assets with respect to the recapture payments noted above, the Company will release associated policyholder liabilities on the sale of the Acquired Block. The net release of such liabilities is estimated to result in a pre-tax non-cash GAAP gain of between \$350 million to \$375 million, after transaction expenses and related costs to be recognized in the Company's consolidated GAAP financial statements for the quarter ending March 31, 2009. As discussed in "Financial Condition" more fully below, the Company has experienced further deterioration in its invested assets subsequent to June 30, 2008, and as such, even subsequent to the sale of the Acquired Block, the Company will still retain a substantial shareholders' deficit.

The Purchase Agreement contains customary representations and warranties by the Sellers, the Buyers and the ING Companies. During the period between the signing of the Purchase Agreement and the closing of the transactions contemplated by such Purchase Agreement, the Sellers will be subject to certain restrictions on their ability to conduct business related to the Acquired Block and enter into material business transactions with respect to the Acquired Block.

Each party's obligation to close the transaction is subject to customary closing conditions, including the receipt of all required governmental and regulatory approvals. In addition, the Buyers, the Sellers and the ING Companies have agreed to use commercially reasonable efforts to restructure certain existing agreements which relate to the Acquired Block. If these restructurings are not achieved within a prescribed period, there is a potential for a post-closing adjustment to the transfer of assets to the Buyers.

The Purchase Agreement also includes customary cross indemnity provisions between SRGL (with respect to the representations, warranties and covenants of the Sellers) and the Buyers, as well as a limited cross indemnity among SRGL (on behalf of the Sellers), the Buyers and the ING Companies. Subject to the satisfaction of the conditions mentioned above, the transaction is expected to close during the first quarter of 2009.

Retained Blocks of Business

The Company's consolidated assets as of September 30, 2008, on a GAAP basis, are estimated to be approximately \$10.12 billion. On a pro forma basis, after giving effect to the sale of the Acquired Block, the Company's consolidated assets are estimated to have been between \$8.5 billion and \$8.75 billion as of September 30, 2008. Following the closing of the sale of the Acquired Block, the remaining assets of the Company will be deployed primarily in the Company's North America Segment, which will have two main components. The first component will be the Company's financial solutions business, none of which was a part of the sale of the Acquired Block. The second component will be the Company's remaining traditional solutions mortality business, which will be comprised primarily of organically generated treaties, including the business in two of the Company's securitization structures, Orkney Holdings, LLC ("Orkney Re I") and Orkney Re II plc ("Orkney Re II"), and the business of Scottish Re Life Corporation, which was acquired by the Company in 2003 from ERC Life Reinsurance Corporation.

As described more fully below in “Run-Off Strategy,” following the sale of the Acquired Block, the Company intends to continue to pursue a run-off strategy for its remaining North America Segment.

Financial Condition and Material Developments in Third and Fourth Quarters of 2008

Set forth below are summaries of certain financial information and certain material developments in the Company’s business during the third and fourth quarters of 2008. During 2008, the Company was engaged in a number of transactions in an effort to address the Company’s deteriorating financial condition, resulting primarily from adverse conditions in the financial markets and their resulting impact on the Company’s investment assets. The following summaries should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2007 and the Company’s interim consolidated financial statements for the three month period ended March 31, 2008 and the three and six month periods ended June 30, 2008 that are available on the Company’s website at www.scottishre.com. Many of the capitalized terms used herein to describe transactions and collateral finance facilities are defined and discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

Financial Results and Condition

The Company has postponed the issuance of its interim consolidated financial statements for the three and nine month periods ended September 30, 2008 in order to (i) address the accounting and tax requirements of transactions impacting the third quarter financial statements; and (ii) allow the Company’s independent public accountants to complete their review procedures with respect to these quarterly financial statements which will be performed in conjunction with their audit of the Company’s 2008 annual financial statements. The Company continues to work diligently on completing its financial statements for the periods ended September 30, 2008 and December 31, 2008. However, the Company is unable to specify at this time when it will be in a position to release these financial reports.

On a consolidated GAAP basis, the Company incurred a net loss of \$1,201 million for the six months ended June 30, 2008 and had total consolidated assets of \$11,763 million, a retained deficit of \$2,246 million and shareholders’ deficit of \$877 million as of June 30, 2008. The Company’s operating results and financial condition have deteriorated due to, among other things, prevailing global credit market conditions throughout 2008 that have had a dramatic effect on the financial services industry and the global economy. The turmoil in the mortgage and broader credit markets have resulted in declines in the fair value of the Company’s invested assets, which contain a significant concentration of sub-prime and Alt-A residential mortgage-backed securities.

These conditions generally have worsened during the second half of 2008 and, notwithstanding the unprecedented intervention of the United States and other governments in the global banking and financial systems, the Company does not expect these adverse market conditions and their impact on the Company to improve

significantly in the near term. Specifically, as of September 30, 2008, the Company's invested assets experienced market value declines of approximately \$460 million in addition to that recognized in its consolidated GAAP statement of operations as a component of net realized and unrealized losses for the period ended June 30, 2008.

In addition to causing significant net realized and unrealized investment losses and reported net losses, these adverse market conditions have impacted the value of underlying collateral used to secure the Company's life reinsurance obligations and statutory reserves for its operating companies. Any reserve credit shortfalls arising from a decline in the value of collateral places increased demand on the Company's available capital and liquidity. Although the Company recently unwound and replaced the Clearwater Re Limited ("Clearwater Re") collateral finance facility as well as the Company's collateral finance facility with HSBC ("HSBC II") (as discussed in more detail below), thereby ending the related forbearance agreements with the counterparties under those facilities, the Company's available capital and liquidity has continued to decline. Based on the Company's most recent liquidity projections, the Company's liquidity is insufficient to fund its needs beyond the short term, largely due to its obligation to retire the Premium Asset Trust Certificates, Series 2004-4 (the "PATs") on March 12, 2009 and, without additional sources of capital or the successful completion of the actions noted below, is currently projected to be exhausted during the first quarter of 2009.

Material Developments

As previously announced, the Company changed its strategic focus in the first quarter of 2008 and has been pursuing a number of actions to preserve capital and mitigate growing liquidity demands which include: (a) ceasing writing new reinsurance treaties and notifying existing clients that it will not be accepting new risks on existing treaties, (b) taking steps to reduce its operating expenses, including reducing staffing levels, (c) completing asset sales of its Wealth Management business and Life Reinsurance International Segment in the second and third quarters of 2008, and (d) signing a definitive agreement to sell the Acquired Block. In addition, the Company has been in discussions with regulators of its primary operating subsidiaries regarding required capital levels and is exploring options currently being considered by the National Association of Insurance Commissioners that may reduce ongoing capital requirements for these entities. The Company also has been exploring potential sources of additional capital and negotiating repurchases or restructuring of its short term debt. There can be no assurance that any of these actions will be successful in supplying funds in amounts and at times necessary to meet the Company's liquidity requirements in the near-term or beyond. The ability of the Company to continue as a going concern is dependent upon its ability to successfully complete these actions in order to address its capital, liquidity and collateral needs.

Background to Financing Transactions Relating to the ING Business

The business relationship between the Company and the ING Companies began with the 2004 acquisition of the ING Companies' U.S. life reinsurance business (the

“ING Business”). This acquisition was described in detail in the Company’s prior public filings with the Securities and Exchange Commission (*see Form 8-K, filed on October 21, 2004 and Annual Report on Form 10-K for the year ended December 31, 2004*).

As explained in these filings, the Company had financial incentives to arrange for long-term third party financing for the XXX Reserve requirements associated with the life reinsurance business acquired from the ING Companies. Between 2005 and 2007, the Company entered into large collateral financing transactions which provided such long-term financing for a significant portion of the ING Business. These included the Ballantyne Re securitization, the HSBC II facility and a third party reinsurance facility. These collateral financing transactions were described in detail in the Company’s prior SEC filings (*see Form 8-K filed on May 8, 2006 for a description of the Ballantyne Re securitization; see the Company’s Annual Report on Form 10-K for the year ended December 31, 2005 for a description of the HSBC II facility and the Company’s other third party reinsurance facility*).

Ballantyne Re Recaptures

As disclosed above, continued erosion in asset values in the Company’s Ballantyne Re collateral finance structure created significant and material market value declines on the assets in Ballantyne Re. Ballantyne Re is an Irish special purpose vehicle and, although the transaction structure is non-recourse to the Company, Ballantyne Re is consolidated on the Company’s financial statements pursuant to Financial Accounting Standards Board Interpretation Number 46R (“FIN 46R”) “Consolidation of Variable Interest Entities.” A majority of these assets in Ballantyne Re supported the reserve credit taken by SRUS on excess reserve obligations ceded by SRUS to Ballantyne Re. To avoid significant reserve credit shortfalls at SRUS arising from depressed asset values and corresponding capital calls from SRUS under its net worth maintenance agreement from Scottish Annuity & Life Insurance Company (Cayman) Ltd. (“SALIC”) (as discussed more fully below), the Company entered into negotiations with the ING Companies and Ambac Assurance UK Limited and Assured Guaranty (UK) Ltd. the financial guarantors under the Ballantyne Re facility (the “Financial Guarantors”) to relieve statutory reserve credit shortfalls from the Ballantyne Re structure and avoid future uncertainty relating to asset valuations. As discussed more fully below, these negotiations led to a series of incremental recaptures from Ballantyne Re, and eventually, the full assignment to the ING Companies of SRUS’ reserve credit exposure to the Ballantyne Re structure.

As previously disclosed in the Company’s interim consolidated financial statements for the period ended March 31, 2008, the Company entered into a binding letter of intent (the “March 31st LOI”) with ING North America Insurance Corporation, ING America Insurance Holdings, Inc. and the ING Companies, effective March 31, 2008. Under the March 31st LOI, SLD consented to the recapture (the “First Quarter Recapture”) as of March 31, 2008 of a pro-rata portion of the business that had been ceded by SRUS to Ballantyne Re (all such recaptured business pursuant to the First Quarter Recapture and subsequent recaptures, collectively, the “Recaptured Business”) for the purpose of collateralizing the XXX Reserves for a portion of the business acquired

by the Company from the ING Companies at the end of 2004 (such portion related to the Ballantyne Re transaction, the “Ballantyne Business”). On May 6, 2008, the Company completed this transaction and recaptured approximately 29.5% of the Ballantyne Business, effective as of March 31, 2008. Immediately following the consummation of this transaction, SLD recaptured the Recaptured Business from SRUS in exchange for an amount approximately equal to the assets released to SRUS on its recapture from Ballantyne Re, and then ceded the Recaptured Business to SLDI, which ceded the Recaptured Business to Scottish Re Life (Bermuda) Limited (“SRLB”). The market value of the assets transferred to the ING Companies in connection with the First Quarter Recapture was \$174.6 million and consisted of assets retained within the Ballantyne Re Economic Account. These assets were transferred to the ING Companies and ultimately reinsured back to the Company on a modified coinsurance and funds withheld basis.

As previously disclosed in the Company’s interim consolidated financial statements for the period ended June 30, 2008, the Company entered into a binding letter of intent with the ING Companies (the “June 30th LOI”) and also entered into a separate binding letter of intent with Ballantyne Re, the ING Companies and the Financial Guarantors (the “Assignment Letter of Intent”), effective June 30, 2008. The June 30th LOI and the Assignment Letter of Intent related to the business that SRUS ceded to Ballantyne Re for the purpose of collateralizing the XXX Reserves for a portion of the Ballantyne Business. Pursuant to the June 30th LOI, SLD consented to the recapture by SRUS of a pro-rata portion of the Ballantyne Business effective as of June 30, 2008 (the “Second Quarter Recapture”). On August 11, 2008, the Company effectuated this transaction and recaptured approximately 15.5% of the Ballantyne Business. Immediately following the consummation of this transaction, SLD recaptured the Recaptured Business from SRUS in exchange for an amount approximately equal to the assets released to SRUS on its recapture from Ballantyne Re, and then ceded the Recaptured Business to SLDI, which ceded the Recaptured Business to SRLB. The market value of the assets transferred to the ING Companies in connection with the Second Quarter Recapture was \$95.0 million and consisted of assets retained within the Ballantyne Re Economic Account. These assets were transferred to the ING Companies and ultimately reinsured back to the Company on a modified coinsurance and funds withheld basis.

On September 30, 2008, the Company entered into a binding letter of intent (the “September 30th LOI”) with ING North America Insurance Corporation, ING America Insurance Holdings, Inc. and the ING Companies. Pursuant to the September 30th LOI, SLD consented to the recapture by SRUS, effective as of September 30, 2008 (the “Third Quarter Recapture”), of a pro-rata portion of the business that had been ceded by SRUS to Ballantyne Re for the purpose of collateralizing the XXX Reserves for a portion of the Ballantyne Business. On November 12, 2008, the Company effectuated the Third Quarter Recapture, which comprised approximately 6.5% of the Ballantyne Business. Immediately following the consummation of this transaction, SLD recaptured the Recaptured Business from SRUS in exchange for an amount equal to approximately the assets released to SRUS on its recapture from Ballantyne Re, and then ceded it to SLDI, which in turn immediately retroceded it to SRLB. The market value of the assets transferred to the ING Companies in connection with the Third Quarter Recapture was

\$41.2 million and consisted of assets retained within the Ballantyne Re Economic Account. These assets were transferred to the ING Companies and ultimately reinsured back to the Company on a modified coinsurance and funds withheld basis.

As part of each of the recaptures discussed above, SLD ceded the Recaptured Business to SLDI, which ceded the Recaptured Business to SRLB. SLDI agreed to provide, or cause the provision of, one or more letters of credit (“LOCs”) in order to provide SLD with statutory financial statement credit for the excess reserves associated with the Recaptured Business. The Company ultimately retained assets released from Ballantyne Re in conjunction with each recapture, which reside in an account at the ING Companies, and the related liabilities are ceded to the Company on a modified coinsurance and funds withheld basis. In conjunction with the three recaptures, the ING Companies initially provided \$660 million of LOCs, with an obligation to provide additional LOCs as needed, which is expected to total \$743 million at the peak of the XXX Reserve requirements. As partial consideration for each of the recaptures, the Company will bear the costs of the LOCs by paying to SLD a facility fee based on the face amount of such LOCs outstanding. The cost of these LOCs is consistent with pricing from the Company’s 2004 acquisition agreement with the ING Companies, as amended on May 7, 2007. Upon closing the Purchase Agreement for the Acquired Block, the Buyers will assume the business related to the above referenced recaptures as well as the obligation to pay these LOC fees. As a result of the recaptures, the Company was able to avoid the imminent insolvency of SRUS and the corresponding bankruptcy of SRGL and SALIC.

Ballantyne Re Assignment

In order to remove future reserve credit shortfalls related to Ballantyne Re, the Company negotiated a transaction with SLD and the Financial Guarantors to permanently transfer SRUS’ reinsurance exposure to Ballantyne Re. On November 19, 2008, with an effective date of October 1, 2008, SRUS assigned and novated to SLD the reinsurance agreement and reinsurance trust agreement between SRUS and Ballantyne Re (the “Assignment”) as follows: (a) SRUS assigned its existing reinsurance agreement with Ballantyne Re (pursuant to which SRUS retroceded to Ballantyne Re the Ballantyne Business) (the “Pre-Assignment Reinsurance Agreement”) to SLD and assigned its existing reinsurance trust agreement with Ballantyne Re to SLD, (b) immediately thereafter, SLD and Ballantyne Re amended and restated that reinsurance agreement (the “Post-Assignment Reinsurance Agreement”), pursuant to which SLD cedes directly to Ballantyne Re the remaining portion of the Ballantyne Business, and amended and restated that reinsurance trust agreement, pursuant to which SLD is the sole beneficiary of the reinsurance trust account maintained by Ballantyne Re, and (c) SLD and SRUS amended and restated their existing reinsurance agreement related to the Ballantyne Business to reflect these changes. Despite the foregoing recaptures and assignment, the Company has not changed its holdings in the Preferred Shares and Class D Notes in Ballantyne Re.

Following the Assignment, SRUS remains obligated to administer the Ballantyne Business consistent with its obligation to administer the business acquired from the ING

Companies at the end of 2004, of which the Ballantyne Business is a part, and SRUS is obligated to provide specified administrative services to Ballantyne Re. However, the obligation to provide reinsurance administration for the Ballantyne Business and the remainder of the business acquired from the ING Companies at the end of 2004 (i.e., the Acquired Block) is being transferred to the Buyers in connection with their acquisition of the Acquired Block.

As part of the Assignment, the Company also agreed that if SLD recaptures business from Ballantyne Re following the Assignment in order to continue to receive full credit for reinsurance, SLDI is entitled to cede the Recaptured Business to the Company, in which case the Company will bear the costs of the LOCs obtained to support that business as described above. Following the sale of the Acquired Block, the Buyers will assume these obligations, and SLDI therefore will have the right to cede the Recaptured Business to the Buyers, in which case the Buyers will bear the costs of the relevant LOCs.

The Assignment does not relieve SRUS of liability for breaches of its representations, warranties, covenants or other obligations that relate to periods before the effective date of the Assignment, and the Company and SRUS will remain responsible for certain ongoing covenants made for the benefit of Ballantyne Re and the Financial Guarantors.

In addition, SRUS has agreed to indemnify and hold harmless SLD and its affiliates for losses and damages incurred arising from the exercise by Ballantyne Re of any right, or from any limitation on the ability of SLD to exercise any right or recover any amount, under the Post-Assignment Reinsurance Agreement as a result of (a) any breach of any representation, warranty or covenant of SRUS under the Pre-Assignment Reinsurance Agreement or any related transaction document, (b) any action or omission by any director, officer, employee, agent, representative, appointee, successor, or permitted assign of SRUS or any of its affiliates that causes a Tax Event (as defined in the Pre-Assignment Reinsurance Agreement) for Ballantyne Re or otherwise causes Ballantyne Re to be in breach of any representation, warranty or covenant under the Pre-Assignment Reinsurance Agreement or any related transaction document or (c) any arbitration award against SRUS that SLD pays on its behalf to avoid termination of the Post-Assignment Reinsurance Agreement.

Sale of Wealth Management

On July 11, 2008, the Company completed the sale of its Wealth Management business and related entities with respect to Scottish Annuity & Life Insurance Company (Bermuda) Ltd. and Scottish Annuity & Life International Insurance Company (Bermuda) Ltd., and on August 5, 2008, the Company completed the sale with respect to The Scottish Annuity Company (Cayman) Ltd. The combined sale of the Wealth Management business generated \$20.7 million of cash proceeds for the Company including \$6.5 million from sale proceeds and \$14.2 million from releasing capital in the regulated Wealth Management business entities. On a consolidated GAAP basis, the sale

of the Company's Wealth Management business resulted in a net loss of \$4.9 million in the quarter ended June 30, 2008.

Sale of International Segment

On July 18, 2008, the Company completed the sale of Scottish Re Holdings Limited and the U.K. portion of its Life Reinsurance International Segment to Pacific Life Insurance Company, and on August 20, 2008, the Company completed the Asian portion of the sale to Pacific Life Insurance Company. The Company continues to work on closing the Singapore branch of SALIC, the parent of the Asian portion of the International Segment sale, and releasing the remaining capital in the regulated entity. The combined sale of the International Segment is expected to generate \$73.8 million of cash proceeds for the Company including \$67.6 million from sale proceeds received in the third quarter of 2008 and \$6.2 million from the expected release of capital in the Singapore branch of SALIC in the first quarter of 2009. As previously disclosed in the Company's June 30, 2008 financial statements, the Company anticipated realizing a GAAP loss of \$6 million on the disposal of the Life Reinsurance International Segment following a write off of deferred acquisition costs of \$40 million in the quarter end June 30, 2008. After completion of the Company's close process which resulted in various adjustments, the Company recorded a net gain of approximately \$9 million from the disposition in the quarter ended September 30, 2008 resulting in a cumulative loss on disposition of approximately \$31 million on a consolidated GAAP basis.

Clearwater Re and HSBC II Forbearance Agreements

In connection with the Company's Clearwater Re collateral finance facility, on May 30, 2008, the Company received notice from the counterparties to the Clearwater Re collateral finance facility that Clearwater Re was in breach of certain covenants to deliver financial statements in a timely manner. In addition, due to a decline in the Company's consolidated shareholders' equity upon the filing of its Form 10-K for the year ended December 31, 2007, the Company was in breach of minimum net worth covenants in Clearwater Re and another of its collateral finance facilities, HSBC II. As of June 30, 2008, Clearwater Re had approximately \$365.9 million of notes outstanding and HSBC II had approximately \$548.3 million of financing outstanding, secured by collateral in a reinsurance trust, of which an aggregate of \$914 million was recorded in Collateral Finance Facilities, and had full recourse to SALIC. As a result, if the Company was unable to successfully negotiate with the relevant counterparties, both the Clearwater Re and HSBC II facilities could have defaulted with full recourse to SALIC and, in the case of Clearwater Re, also with full recourse to SRGL. Upon a default of either facility, SRGL and SALIC would have been forced to seek bankruptcy protection and SRUS, their indirect subsidiary, likely would have been seized by the Insurance Commissioner of the State of Delaware (the "Department").

Termination of Clearwater Re Forbearance

On June 30, 2008, the Company executed forbearance agreements with the relevant counterparties to the Clearwater Re and HSBC II facilities whereby the relevant

counterparties agreed to forbear taking action until December 15, 2008 (the forbearance agreements were filed with the Securities and Exchange Commission on July 11, 2008, as Exhibits 10.67 and 10.68 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007). In order to achieve forbearance, the Company agreed to certain economic and non-economic terms, including forbearance payments to the relevant counterparties, the contribution by SALIC of additional collateral to the transactions, limitations on future fundings by the relevant counterparties under the facilities, and the requirement to achieve certain milestones set by the counterparties related to, among other things, the sale of its Life Reinsurance North America Segment, all of which significantly increased constraints on the Company's available capital and liquidity.

On August 29, 2008, the Company completed a full recapture, effective as of July 1, 2008, of the business ceded from SRUS to Clearwater Re and immediately retroceded the recaptured business, also effective as of July 1, 2008, from SRUS to an unaffiliated third party reinsurer (collectively, the "Clearwater Re Recapture Transaction"). In connection with the Clearwater Re Recapture Transaction, the bank counterparties to the Clearwater Re collateral finance facility were repaid in full with assets within the respective collateral finance facility, which secured the obligations owed to the bank counterparties. Such assets resided in the Excess Account of the associated Reinsurance Trust that supported the relevant excess reserves, and in a Surplus Account governed by an indenture. Assets returned to SRUS in conjunction with the Clearwater Re Recapture Transaction were primarily released from the Economic Account of the associated Reinsurance Trust that supported the relevant economic reserves. The Company also paid a \$4 million fee to the bank-counterparties and the facility, and the related forbearance agreement and its terms, were terminated. On a consolidated GAAP basis, the Clearwater Re Recapture Transaction and the retrocession of a related portion of business resulted in a reduction of total assets and total liabilities of approximately \$624 million and \$504 million, respectively, resulting in a GAAP pre-tax loss of approximately \$120 million during the quarter ended September 30, 2008. The loss was primarily comprised of the write-off of deferred acquisition costs of approximately \$75 million and a ceding commission of \$39 million. The foregoing transactions eliminated the associated reserve credit strain in SRUS and relieved pressure on the Company's liquidity.

Termination of HSBC II Forbearance

In connection with the HSBC II collateral finance facility, on September 30, 2008, the Company entered into a binding letter of intent (the "HSBC II LOI") with ING North America Insurance Corporation, ING America Insurance Holdings, Inc. and the ING Companies. Pursuant to the HSBC II LOI, SLD consented to the recapture by SRUS of the business (such recaptured business, the "HSBC II Recaptured Business") that had been ceded by SRUS to Scottish Re (Dublin) Limited ("SRD") for the purpose of collateralizing (with financing provided by the HSBC II collateral finance facility) the XXX Reserves for a portion of the business originally acquired by the Company from the ING Companies at the end of 2004 (such portion related to the HSBC II collateral finance

facility, the “HSBC II Business”) effective as of September 30, 2008 (the “HSBC II Recapture”).

On October 15, 2008, the Company and certain of its subsidiaries entered into a series of transactions with an effective date of September 30, 2008 to unwind the HSBC II facility. In connection with the unwind transactions, HSBC was repaid in full with assets within the collateral finance facility that secured the obligations to HSBC. Such assets resided in the Excess Account of the associated Reinsurance Trust that supported the reserves associated with the excess of the U.S. statutory reserves over the relevant economic reserves, or were held by HSBC as collateral. The Company also paid a \$6 million fee pursuant to the related forbearance agreement and paid a make-whole fee of \$4 million (reduced from the amount contractually owed to HSBC), and the facility and the forbearance agreement and its terms were terminated. Following the consummation of the HSBC II Recapture, SLD recaptured the HSBC II Recaptured Business from SRUS and then ceded the HSBC II Recaptured Business to SLDI, which ceded the HSBC II Recaptured Business to SRLB.

SLDI has agreed to provide, or cause the provision of, one or more LOCs in order to provide SLD with statutory financial statement credit for the excess reserves associated with the HSBC II Recaptured Business over the economic reserves held in an account related thereto. In conjunction with the HSBC II Recaptured Business, the ING Companies initially provided approximately \$650 million of LOCs, with an obligation to provide additional LOCs as needed, which is expected to total approximately \$815 million at the time of the peak of the XXX Reserve requirements. As consideration, the Company will bear the costs of the LOCs by paying to SLD a facility fee based on the face amount of such LOCs outstanding as of the end of the preceding calendar quarter. Upon closing the Purchase Agreement for the Acquired Block, the obligation to pay these LOC fees will transfer to the Buyers. The recapture transaction recorded during the period ended September 30, 2008 based on the signed LOI resulted in no impact to the balance sheet or income statement on a consolidated GAAP basis. On October 15, 2008 when the collateral facility related to the HSBC II recapture was unwound, the Company returned to HSBC \$558.5 million to relieve the liabilities and fees associated with the facility. This resulted in an immaterial GAAP loss to the Company. Both the unwind and the related GAAP loss will be recorded as components of fourth quarter 2008 results because the unwind was not effectuated until October 2008.

On December 19, 2008, the Company completed the second phase of the unwind by effecting a full recapture of the business ceded from SRUS to SRD, effective as of September 30, 2008, and immediately retroceded the recaptured business, also effective as of September 30, 2008, to SLD. SLD then ceded the recaptured business to SLDI, which ceded the recaptured business to SRLB. The HSBC II Recaptured Business and related LOC payment obligations are part of the Acquired Block being sold to the Buyers. Assets returned to SRUS in conjunction with the recapture consisted primarily of assets released from the Economic Account of the associated Reinsurance Trust (supporting the relevant economic reserves).

Orkney Re II

With respect to another of the Company's non-recourse securitization structures, Orkney Re II, in May 2008 the Company executed amendments to certain transaction documents to give it flexibility in dealing with additional near term estimated fair value declines in the sub-prime and Alt-A securities held by Orkney Re II. The amendments eliminate certain limitations on priority of payments within Orkney Re II and provide the Company increased flexibility to recapture business from Orkney Re II.

Transfer of Business from Scottish Re (Dublin) Limited to SALIC

Due to market value degradation and its impact on SRD's regulatory solvency, the Company effectuated a transfer of a majority of its business in SRD to SALIC, effective October 1, 2008. SALIC, in return received modified coinsurance assets with respect to ING Business originally ceded to SRD and the residual interests in reserve credit trust assets with respect to business originally ceded from SRUS to SRD (such trust assets remain in trust for the benefit of, and to support the business now ceded to SALIC by, SRUS). SALIC is a party to a net worth maintenance agreement with SRD, pursuant to which SALIC effectively guarantees SRD's regulatory solvency. In the fourth quarter of 2008, the Irish insurance regulator notified the Company that corrective action needed to be taken with respect to SRD's solvency calculations. Absent this transfer, SALIC's obligations under such net worth maintenance agreement would have been triggered and the Company likely would have needed to seek bankruptcy protection. A significant portion of the business transferred from SRD to SALIC is included in the Acquired Block being sold to the Buyers.

Delaware Regulatory Relief and Action

The fair value of the securities in the Company's qualifying reserve credit trust accounts has declined significantly due to the continued market value degradation in the U.S. capital markets. As a result of this decline, and even after giving effect to several of the transactions noted above, at the end of the third quarter 2008, absent a statutory accounting permitted practice, SRUS estimated a shortfall in reserve credit of approximately \$132 million. This shortfall in reserve credit would have placed significant financial stress upon the statutory capital position of SRUS and, in turn, the solvency of SALIC and SRGL because of obligations under certain net worth maintenance agreements in which SALIC pledged to maintain minimum capital and surplus levels of SRUS. As a result, SRUS requested and received approval from the Department for a permitted practice (the "Permitted Practice") with effect beginning as of September 30, 2008 related to SRUS' ongoing ability to take reserve credit for reinsurance ceded to Orkney Re I and Orkney Re II securitizations as well as the reinsurance currently ceded to SALIC. The Permitted Practice relieved SRUS of the need to receive, and SALIC of the corresponding obligation to fund, an additional \$104 million in capital contributions. The value of this Permitted Practice may increase over time generally as a result of increases in statutory reserves or decreases in market values. In connection with the Permitted Practice, SALIC agreed to contribute to SRUS \$28 million in capital prior to SRUS filing its third quarter 2008 financial statements and an additional \$7 million prior to year end 2008.

In approving the Permitted Practice, the Company and the Department agreed to the formal supervision of SRUS towards the end of 2008, and that such supervision would likely continue for as long as the Permitted Practice remained in place. Subsequently, on January 5, 2009, the Department issued an order of supervision (the "Order of Supervision") against SRUS, in accordance with 18 Del. C. §5942, which, among other things, requires the Department's consent to any transaction outside the ordinary course of business, and which, in large part, formalized certain reporting and processes already informally in place between SRUS and the Department over the last several months.

In the Company's recent discussions with the Department, the Department indicated certain expectations for immediate action to be taken by the Company in order to address the Company's deteriorating financial condition. These expectations include, among others, the Company (a) entering into a binding agreement to sell the Acquired Block and to promptly close such transaction and (b) obtaining a binding commitment from Cerberus Capital Management, L.P. and MassMutual Capital Partners LLC (the "Controlling Shareholders"), the Company's majority shareholders, for additional capital in SRUS and the Company. The Company currently is engaged in discussions with the Department regarding the definitive timing, form and tenor of such a capital commitment. Although definitive terms have not been reached, the Company expects any such capital commitment to be subject to a number of conditions including, but not limited to, that any proceeds received from such a commitment not be available for use, directly or indirectly, in order to satisfy SALIC's or any other of the Company's obligations in respect of the PATs or any other debt within the Company's capital structure. No assurances can be given that the Company will be successful in negotiating a definitive capital commitment with either or both of the Controlling Shareholders or in structuring an alternative thereto acceptable to the Department and the Company, or ultimately in satisfying any of the conditions to receiving funds under such capital commitment or any such alternative.

Risk of Seizure By the Department and Bankruptcy

In the event that for any reason the Company does not meet the Department's expectations described above, the Department may take action to seize control of SRUS under applicable insurance law. Such a seizure would place control of all management decisions with the Department, including with respect to controlling cash flows, settling claims and paying obligations. The primary objective of the Department would be to protect the interests of the policyholders and ceding insurers with whom SRUS has contracted and would not be to protect the interests of SRGL, SALIC, the Controlling Shareholders or any other stakeholders of the Company. A seizure of SRUS would have numerous consequences, including potentially triggering default provisions within certain of the Company's finance facilities and ceding company recapture rights on reinsurance agreements with the Company. Such seizure likely would also lead to the immediate need for SALIC and SRGL to seek bankruptcy protection. Based upon management's preliminary analysis, in the event of bankruptcy, SRGL and SALIC will not have sufficient funds to pay creditors or the ability to execute an orderly run-off strategy.

Premium Asset Trust Certificates Due March 12, 2009

The Company has been actively engaged in private negotiations for the restructuring, exchange and/or repurchase of its \$100 million payment obligation for the PATs issued by SALIC. The PATs mature on March 12, 2009. Although management currently believes that these negotiations will be successful, if the Company is unable to repurchase the PATs at a substantial discount or restructure the PATs payment obligation, SALIC likely would be unable to repay the principal amount at maturity and, as a result, the Company may need to seek bankruptcy protection. In the event SALIC were to seek bankruptcy protection, any such action likely would lead to increased regulatory intervention by the Department.

Potential Deferral of Interest Payments on Trust Preferred Securities

In order to further preserve liquidity, the Company also is considering deferring interest payments on trust preferred securities issued and sold through certain statutory trusts established by the Company, which include the \$20 million Preferred Trust Securities due 2033, the \$10 million Trust Preferred Securities due 2033, the \$32 million Trust Preferred Securities due 2034 and the \$50 million Trust Preferred Securities due 2034 (collectively, the "Trust Preferred Securities"). Pursuant to the terms of the related transaction documents, each trust may defer payment of interest on such securities for up to 20 consecutive quarterly periods, but no later than their respective scheduled maturity date. Any deferred payments would accrue interest quarterly on a compounded basis if Scottish Holdings, Inc. or Scottish Financial (Luxembourg) S.a.r.l., as applicable, defers interest on the related debentures issued to such trust, which such entity may do at its option. SALIC is a guarantor under each tranche of the Trust Preferred Securities.

Additional Rating Agency Actions

On July 16, 2008, Standard & Poor's Ratings Services ("S&P") lowered the ratings on SALIC and its affiliated operating companies to "CCC+" from "B-". On January 9, 2009, S&P lowered its counterparty credit rating on SRGL to "CC" from "CCC-" and lowered its counterparty credit and financial strength ratings on SALIC to "CC" from "CCC+". S&P also lowered its ratings on SRUS and Scottish Re Life Corporation to "CCC" from "CCC+" and lowered its ratings on SRGL's, SALIC's, SRUS' and Scottish Re Life Corporation's dependent unwrapped securitized deals. S&P removed all the ratings from CreditWatch, where they had been placed with negative implications on January 31, 2008. The outlook on SRUS and Scottish Re Life Corporation currently is negative. S&P noted that these recent rating actions reflect the uncertainty surrounding the maturity payment related to the PATs and the fact that, as of January 9, 2009, the sale of the Company's North American Business had not yet materialized. On January 23, 2009, S&P stated that its ratings on the Company were unaffected by the Company's announcement of the transaction with Hannover.

In addition, on January 23, 2009, Moody's Investor Service ("Moody's") lowered the ratings on SRGL and its affiliates. Moody's lowered its insurance financial strength rating ("IFR") of SALIC to Ca from B3, and lowered the IFR of SRUS to B1 from Ba3.

Moody's also lowered the rating of SRGL's preferred stock to Ca from Caa3. The outlook on SRGL and its affiliates currently is negative. Moody's noted that their rating on SALIC reflects their view that there is a significant risk that SALIC may not be able to meet its \$100 million obligation on the PATs, maturing on March 12, 2009. With regard to SRUS, Moody's noted that although the transaction with the Buyers is positive, there still remains uncertainty regarding the future financial performance of the remaining business at SRUS post-transaction.

Corporate Leadership Changes

George Zippel, President and Chief Executive Officer of SRGL, extended his employment agreement with the Company from July 31, 2008 to December 31, 2008, in order to assist the Company in achieving its previously announced revised strategic objectives. Following the completion or near completion of these strategic objectives, Mr. Zippel resigned from the Company, effective December 31, 2008. Mr. Zippel had served in the role of President and Chief Executive Officer since August 2007. Following Mr. Zippel's departure, Paul Goldean was appointed President and Chief Executive Officer effective January 1, 2009. Prior to his appointment, Mr. Goldean served as SRGL's Chief Administrative Officer from August 2007 to December 2008. From July 2006 to August 2007, Mr. Goldean was SRGL's President and Chief Executive Officer and also served on the Company's various Boards of Directors. From February 2004 to July 2006, Mr. Goldean served as SRGL's Executive Vice President and General Counsel with responsibility for the Company's strategic transactions and capital markets activities. Mr. Goldean joined the Company in February 2002 as Senior Vice President and General Counsel.

In addition to Mr. Goldean's appointment, Gregg Klingenberg was appointed to the role of General Counsel, effective January 1, 2009. Previously, Mr. Klingenberg served as Senior Vice President, Associate General Counsel for Scottish Holdings, Inc. and Vice President, Legal Counsel for the Company's North American operating subsidiaries. Mr. Klingenberg joined the Company in February 2006.

Run-Off Strategy

As noted above, the Company has signed a definitive agreement to sell the Acquired Block. If such sale is completed, the Company expects SRUS to maintain a risk based capital ratio above the company action level prescribed by Delaware law and above any risk based capital-based recapture thresholds in its reinsurance agreements with ceding companies. In addition, assuming a completed sale and successful resolution of the PATs, the Company expects to follow a run-off strategy for the remaining business in its Life Reinsurance North America Segment, whereby the Company will continue to receive premiums, pay claims and perform key activities under its existing reinsurance treaties and will be required to record appropriate statutory reserves for the duration of these reinsurance obligations. Following the closing of the sale of the Acquired Block, SRUS and its operating subsidiaries will continue to maintain one of the ten largest inforce portfolios of traditional life reinsurance business in North America. Through

expense reductions and management of investments and reinsurance cash flows, the Company's goal is to meet its reinsurance and other obligations over time.

No assurances can be given that the Company will be successful in completing the sale of the Acquired Block or that if it does complete such sale, it will be successful in implementing its run-off strategy. In addition, even if such sale is completed, depending upon a number of factors including the state of financial markets, the Company may need additional liquidity to support its run-off strategy and other corporate financial obligations. In these circumstances, to the extent that the Company is unsuccessful in securing additional sources of liquidity, one or more of its insurance operating subsidiaries may become insolvent and the Company may need to seek bankruptcy protection.