

REPORT ON EXAMINATION
OF
SCOTTISH RE LIFE CORPORATION
AS OF
DECEMBER 31, 2008

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
SCOTTISH RE LIFE CORPORATION
AS OF
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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

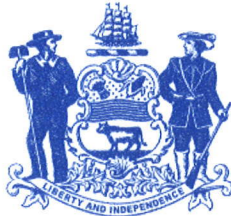
This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 1st day of July, 2010

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

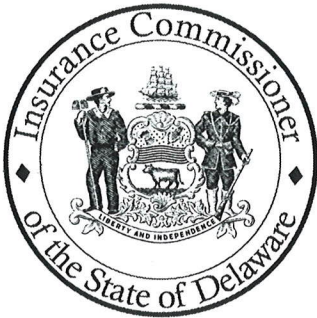
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2008 of the

SCOTTISH RE LIFE CORPORATION

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 1 July 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 1st day of July 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

June 7, 2010

Honorable Alfred W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
PO Box 1157
Richmond, VA 23219

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, DE 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 09-004, dated December 24, 2008, an examination has been made of the affairs, financial condition and management of

SCOTTISH RE LIFE CORPORATION

hereinafter referred to as “Company or SRLC” incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the main administrative office of the Company, located at 14120 Ballantyne Corporate Place, Suite 300, Charlotte, North Carolina 28277.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2005 by the Delaware Department of Insurance. This examination covered the period from January 1, 2006 through December 31, 2008, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The general procedures of the examination followed rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook (Handbook), and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, an information systems review was performed by the consulting firm of INS Services, Inc.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made part of the workpapers of this examination:

Fidelity bond and other insurance
Officers', employees' and agents' welfare and pension plans

This examination did not qualify for zone participation as no direct premiums are written. The examination was made in conjunction with the examination of the Company's parent, Scottish Re (U.S.), Inc. (SRUS) and its affiliate, Orkney Re, Inc. (ORE).

HISTORY

The Company was incorporated as Frankona American Life Reassurance Corporation on August 9, 1979 under the laws of the State of Missouri and commenced business on October 1, 1979. The Company was purchased by Employers Reinsurance Corporation (ERC), a Missouri Corporation in July, 1995 from Frankona Ruckversicherungs-Aktien-Gesellschaft of Munich, Germany. In December, 1995, the Company merged with Monogram Reinsurance Corporation, an ERC subsidiary, with the Company becoming the surviving entity. In February, 1996, the Company's name was changed to ERC Life Reinsurance Corporation. On August 1, 1999, ERC Life Reinsurance Corporation acquired the reinsurance business of Phoenix Mutual Life Insurance Company. On December 22, 2003, 95% of Company's outstanding capital stock was purchased by Scottish Holdings, Inc., (SHI), a Delaware Corporation. The name was changed to Scottish Re Life Corporation (SRLC). On December 31, 2004, SHI contributed its interest in the Company to SRUS, a Delaware company, and a wholly owned subsidiary of SHI. SHI was at the time a wholly owned subsidiary of Scottish Holdings (Barbados), Limited, a Barbados company (SHBB). SHBB was dissolved in November 2008. SHBB was, and SHI is, a wholly owned subsidiary of Scottish Annuity & Life Insurance Company (Cayman) Ltd., a Cayman Islands company (SALIC), which is a wholly owned subsidiary of Scottish Re Group Limited, a Cayman Islands company (SRGL). Ownership of the remaining 5% of the Company was

retained by ERC. Such 5% ownership is now held by GE Capital Corporation and GE Capital Services.

CAPITALIZATION

The Company has 533,000 authorized and issued shares of common stock, with a par value of \$10 per share, outstanding at December 31, 2008. There has been no change to the capital and paid in surplus account during the period under review. On December 31, 2008, the Company had \$5,330,000 in capital and \$131,231,349 in contributed surplus.

MANAGEMENT AND CONTROL

The Company's bylaws were originally adopted January 20, 1977, amended October 8, 1982, December 8, 2003, and June 21, 2004 and restated and readopted on December 21, 2004. The bylaws state that the business and affairs shall be managed by a Board of Directors consisting of the number of Directors permitted by statute with the number determined by resolution of the Board of Directors or by the stockholders at the annual meeting. It is not necessary for the Directors to be stockholders.

The following constitute the Board of Directors as reflected in the 2008 refiled Annual Statement:

<u>Name</u>	<u>Principal Occupation</u>
Paul Goldean	President and Chief Executive Officer, SRGL
Meredith Alicia Ratajczak	President and Chief Executive Officer, SRUS, SRLC and ORE
Michael Steven Baumstein	Executive Vice President, Investments and Capital Markets, SRGL
Daniel Ryan Roth	Chief Financial Officer, SRGL

The bylaws, as amended, stated that the Officers of the Company shall include a President, a Secretary and a Treasurer. The Board of Directors may also choose senior vice presidents, vice presidents and one or more assistant secretaries and assistant treasurers. The same person may hold any number of offices.

The Officers serving at the time the 2008 Annual Statement was refiled were as follows:

Meredith Alicia Ratajczak	President and Chief Executive Officer
Larry Houston Roy *	Executive Vice President, Client Services
Gregg Lawrence Klingenberg	Executive Vice President, General Counsel and Secretary
Andrew Richard Creighton	Senior Vice President, Chief Actuary
Brian Andrew Davis	Senior Vice President, Treasurer
Amy McNutt Woltman	Vice President, Assistant General Counsel, Assistant Secretary
Richard Vincent Plati	Assistant Treasurer, Assistant Controller
*Resigned in 2009	

Per review of the board minutes, it was noted the Company is in violation of Section 1304 of the Delaware Insurance Code (18 *Del. C.* § 1304) due to the fact that the Company is not obtaining approval of its investments by the Board of Directors or by a committee thereof charged with the supervision of investments and loans.

It is recommended the Company comply with (18 *Del. C.* § 1304) regarding the approval of investment transactions or by a committee thereof.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. On May 7, 2007, SRGL completed a Securities Purchase Agreement with MassMutual Capital Partners LLC, a member of the MassMutual Financial Group, and SRGL Acquisition, LLC, an affiliate of Cerberus Capital Management, L.P. As a result, the aforementioned entities hold in aggregate, directly or indirectly, 68.7% of the equity voting power, along with the right to designate two-

thirds of the Boards of Directors of SRGL. Massachusetts Mutual Life Insurance Company and Stephen Feinberg are the ultimate controlling persons of the Company by virtue of their ownership and/or control of MassMutual Capital Partners, LLC and Cerberus Capital Management, L.P., respectively.

Massachusetts Mutual Life Insurance Company (US-Massachusetts) MassMutual Holding, LLC (US-Delaware) MML Capital Partners, LLC (US-Delaware) Scottish Re Group Limited (Cayman) Scottish Annuity & Life Insurance Company (Cayman) Ltd. (Cayman Islands) Scottish Holdings, Inc. (US-Delaware) Scottish Re (U.S.), Inc. (US-Delaware) Scottish Re Life Corporation (US-Delaware) Orkney Holdings, LLC (US-Delaware) Orkney Re, Inc. (US-Delaware)

Dividends

There were no dividends paid during the period covered by this examination.

MANAGEMENT AND SERVICE AGREEMENTS

Affiliated Agreements

The Company is a party to the following agreements with its parent and affiliates that have been approved by the Delaware Department of Insurance:

1. An Asset Management Service Fee Agreement dated January 1, 2004 whereby SRGL provides asset management services to the Company;
2. A Management Services Fee Agreement dated January 1, 2004 whereby SRGL provides management services to the Company;
3. A Support Services Agreement dated January 1, 2004 whereby SRUS provides services

to the Company.

The net expense paid for services received under these agreements was \$6,625,307 for the year ended December 31, 2008.

The Company is a party to a Tax Allocation Agreement dated February 11, 2005 for tax years after December 31, 2004 with ORE, Orkney Holdings, LLC, SRUS, and Scottish Re Life (Bermuda) Ltd.

The Company is a party to a net worth maintenance agreement dated January 1, 2004 with SALIC and SRGL pursuant to which SALIC will make capital contributions to the Company as necessary in order for the Company's Risk-Based Capital (RBC) level to remain above certain statutory minimums. There are no fees charged to the Company based on this agreement.

SRLC made payments to SHI in exchange for services provided by SHI to SRLC pursuant to an agreement that was not duly executed and it was not approved by the Delaware Department of Insurance. A support services agreement between SRLC and SHI was reported in the 2008 Annual Statement, Notes to Financial Statements-Note 10 F (Item 3), as being in force. SRLC paid SHI \$739,868 during the year 2008. The agreement has an effective date of January 1, 2005, but it was not signed by either party. In addition, the Company could not provide any evidence that the agreement had been approved by the Delaware Department of Insurance.

It is recommended the Company submit affiliated agreements to the Delaware Department of Insurance for approval as required by 18 Del. C. § 5005 (2)(d).

Non-affiliated Agreements

The Company utilizes an Investment Management Agreement, dated June 28, 2002, through its relationship as an indirect subsidiary of SALIC with General Re – New England Asset Management, Inc. (NEAM). NEAM provides investment management services, Schedule D accounting services and manages the Company's trust agreement deposits for its ceding reinsurance program with various unauthorized reinsurers. The Company also has custodial account agreements with Comerica Bank, Wilmington Trust, Bank of New York Mellon and various banks to manage invested assets under various statutory deposits and trust agreements.

TERRITORY AND PLAN OF OPERATION

Territory:

The Company was licensed in 26 states as of December 31, 2008 but did not write direct business. The Company is an accredited reinsurer in 26 jurisdictions.

Plan of Operation:

The Company acquired its block of business from ERC in late 2003. The legacy ERC business consists of two blocks of business, Phoenix and Frankona, which is approximately 80% and 20% of the business, respectively. The blocks of business, consisting of Traditional Solutions and Financial Solutions business, are primarily in run-off and there is no new business. In the Traditional Solutions business, the Company reinsures the mortality risk on life insurance policies written by primary insurers. This business is often referred to as traditional life

reinsurance. The Company assumed this business predominately on an automatic basis with respect to newly written life insurance policies.

In respect of the Financial Solutions business, the Company assumed financial solutions treaties that improve the financial position of clients by increasing their capital availability and statutory surplus. These solutions include contracts under which the Company assumed the investment and persistency risks of then existing blocks of business. The products reinsured include annuities and annuity-type products and cash value life insurance.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus</u>	<u>Premiums, Annuity Considerations and Deposits</u>	<u>Net Income</u>
2008	\$510,442,432	\$57,576,533	\$123,031,663	\$(19,405,303)
2007	\$581,345,539	\$93,276,166	\$128,525,278	\$9,792,132
2006	\$667,980,846	\$81,294,335	\$109,355,892	\$(3,741,276)
2005	\$614,659,509	\$74,332,343	\$114,286,437	\$8,757,191

The Company has assumed no new business, with currently assumed business in run-off, since the Company was acquired in December 2003.

NAIC FINANCIAL RATIOS

The Company's 2008 NAIC Financial Ratios from the Insurance Regulatory Information System (IRIS Ratios) were reviewed and it was noted that the Company received the following four unusual values out of the twelve ratios reviewed:

- Net Change in Capital and Surplus
- Gross Change in Capital and Surplus
- Net Income to Total Income
- Change in Premium

Net Change in Capital and Surplus resulted in an actual value of (29%) versus a recommended minimum value of (10%). The result is due to the Company's recognition of other-than-temporary impairments of \$23.3 million throughout 2008. Gross Change in Capital and Surplus resulted in an actual value of (29%) versus a recommended minimum value of (10%). The result is due to the Company's recognition of other-than-temporary impairments of \$23.3 million throughout 2008. Net Income to Total Income (including realized capital gains and losses) resulted in an actual value of (15%) versus a recommended minimum value of 0%. The result is due to the Company's recognition of other-than-temporary impairments of \$23.3 million throughout 2008. Change in Premium resulted in an actual value of (16%) versus a recommended minimum value of (10%). The result is due to an error on Schedule T in 2007. In 2008, the Company corrected Schedule T to report premiums on a cash basis as opposed to being reported on an incurred basis in 2007.

REINSURANCE

The Company is a professional reinsurer and did not write any direct business during the period under examination. The majority of its business is self-administered (SA) by the ceding company, with the remainder being administered by the Company. For the SA business, treaties are set up in the policy administration system for premium recording and claims processing. The SA business is a closed block of insurance with no new treaties added during the period under examination.

Assumed

There were no new assumptions during the period under examination. Life and Annuity reserves assumed as of December 31, 2008 amounted to \$591,602,113.

Ceded

The Company entered into one treaty effective April 1, 2007 with its parent, SRUS. The Company ceded reserves in the amount of \$23,098,074 to SRUS at year-end 2008. Total Company reserve credit taken as of December 31, 2008 amounted to \$282,471,112, of which \$139,870,579 or 49% was retroceded to unauthorized reinsurers.

All reserves retroceded to unauthorized reinsurers were secured by letters of credit and miscellaneous credit balances.

During the review of amounts recoverable on paid losses, it was noted that net balances were reported for certain retrocessions on Schedule S, Part 2. These balances should have been reported on a gross basis on Schedule S as required by SSAP No. 61, paragraph 24. Although, the balances on Schedule S were not reported on a gross basis, there was no surplus impact.

It is recommended the Company comply with the provisions of SSAP No. 61, paragraph 24 when reporting balances on Schedule S, Part 2.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure. The examination reviewed the Company's documented controls, but did not test controls. Substantive procedures were performed during the examination.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2008.

Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account

Assets
December 31, 2008

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$ 244,770,776	\$ -	\$ 244,770,776	
Preferred stocks	50,000,000	-	50,000,000	
Cash and short-term investments	70,339,414	-	70,339,414	
Contract loans	14,818,283	-	14,818,283	
Investment income due and accrued	2,703,770	-	2,703,770	
Uncollected premiums and agents' balances in course of collection	66,995,883	-	66,995,883	
Amounts recoverable from reinsurers	53,774,476	2,000,000	51,774,476	
Other amounts receivable under reinsurance contracts	7,883,246	-	7,883,246	
Current federal income tax recoverable	2,987,689	2,987,689	-	
Net deferred tax asset	30,025,503	28,868,919	1,156,584	
EDP equipment and software	13,606	13,606	-	
Receivable from parent, subsidiaries and affiliates	6,796,775	6,796,775	-	
Negative IMR disallowed	<u>\$ 2,355,851</u>	<u>\$ 2,355,851</u>	<u>\$ -</u>	
Totals	<u>\$ 553,465,272</u>	<u>\$ 43,022,840</u>	<u>\$ 510,442,432</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Liabilities, Surplus and Other Funds
December 31, 2008

		<u>Note</u>
Aggregate reserve for life contracts	\$ 304,580,771	1
Liability for deposit-type contracts	4,550,230	
Contract claims: life	51,425,840	
Premiums and annuity considerations for life and accident and health contracts received in advance	29,705	
Surrender values on canceled contracts	1,800,292	
Provision for experience rating refunds	21,662	
Other amounts payable on reinsurance assumed and ceded	57,835,997	
Commissions and expense allowances payable on reinsurance assumed	5,992,110	
General expenses due or accrued	52,558	
Taxes, licenses and fees due or accrued	(875,151)	
Remittances and items not allocated	2,318,774	
Reinsurance in unauthorized companies	11,760,410	
Payable to parent, subsidiaries and affiliates	13,370,405	
Payable for securities	<u>\$ 2,296</u>	
Total Liabilities	452,865,899	
Common capital stock	5,330,000	
Deferred gain on reinsurance	10,117,950	
Gross paid in and contributed surplus	131,231,349	
Unassigned funds (surplus)	<u>\$(89,102,766)</u>	
Total Capital and Surplus	<u>\$ 57,576,533</u>	
Total Liabilities, Surplus and Other Funds	<u>\$ 510,442,432</u>	

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Summary of Operations
December 31, 2008

Income:		<u>Note</u>
Premiums earned	\$ 123,031,663	
Net investment income earned	19,446,181	
Amortization of interest maintenance reserve	359,523	
Commissions and expense allowances on reinsurance ceded	12,454,297	
Net interest credited on funds withheld	796,826	
Miscellaneous income	<u>\$ (282)</u>	
Total income		\$ 156,088,208
 Expenses:		
Death benefits	122,448,845	
Annuity benefits	2,593,281	
Surrender benefits & withdrawals for life contracts	7,964,538	
Increase in aggregate reserves for life & accident & health contracts	(7,168,957)	
Commissions & expense allowances on reinsurance assumed	21,698,054	
General insurance expenses	8,061,519	
Insurance taxes, licenses and fees	(1,681,028)	
Modco reserve adjustment on reinsurance assumed	(183,928)	
Brokerage commission	<u>\$ 8,701</u>	
Total expenses		<u>\$ 153,741,025</u>
Net income before federal income taxes incurred		2,347,183
Federal income taxes incurred		(1,732,865)
Net realized capital gains		<u>(23,485,351)</u>
Net income		<u>\$ (19,405,303)</u>

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

Capital and Surplus Account
December 31, 2007 to December 31, 2008

Note

Surplus as regards policyholders, December 31, 2007		\$93,276,167
Net Income		<u>\$(19,405,303)</u>
<u>Additions:</u>		
Change in net deferred income tax	\$ 5,732,775	
Change in asset valuation reserve	447,191	
Total additions		<u>\$6,179,966</u>
<u>Deductions:</u>		
Change in nonadmitted assets	(17,574,734)	
Change in liability for reinsurance in unauthorized companies	(3,416,302)	
Prior year OTTI	<u>(1,483,261)</u>	
Total deductions		<u>\$(22,474,297)</u>
Net change in surplus as regards policyholders for the year		(35,699,634)
Surplus as regards policyholders, December 31, 2008		<u><u>\$57,576,533</u></u>

The accompanying Notes are an integral part of the Financial Statements and Exhibits.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Aggregate reserve for life contracts.....\$304,580,771

The Delaware Department of Insurance contracted INS Consultants, Inc. (Consulting Actuary) to perform an actuarial review of the Company's reserves. The actuarial staff at the Company provided the Consulting Actuary with their statement of actuarial opinion and the supporting actuarial data and documents. No material exceptions were noted during that review; however, the consulting actuary recommended the following:

It is recommended that SRLC obtain actuarial reserve certifications on a more timely basis for all assumed reserves. It is also recommended SRLC improve procedures for reporting reserve credits in Schedule S, such that they mirror the reserves reported by the ceding companies.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's prior examination recommendations were reviewed for compliance. With the exception of the recommendation pertaining to non-compliance with Section 1304 of the Delaware Insurance Code (18 *Del. C.* § 1304 and Section 5005 (2)(d) of the Delaware Insurance Code (18 *Del. C.* § 5005 (2)(d)), the Company complied with prior recommendations.

SUMMARY OF RECOMMENDATIONS

Management and Control

It is recommended the Company comply with 18 *Del. C.* § 1304 regarding the required approval of investment transactions by the Board of Directors or by a committee thereof. (Page 6)

Management and Service Agreements

It is recommended the Company submit affiliated agreements to the Delaware Department of Insurance for approval as required by 18 *Del. C.* § 5005 (2)(d). (Page 8)

Reinsurance

It is recommended the Company comply with the provisions of SSAP No. 61, paragraph 24 of the *NAIC Accounting Practices and Procedures Manual* when reporting balances on Schedule S, Part 2. (Page 12)

Aggregate Reserve for Life Contracts

It is recommended that SRLC obtain actuarial reserve certifications on a more timely basis for all assumed reserves. It is also recommended SRLC improve procedures for reporting reserve credits in Schedule S, such that they mirror the reserves reported by the ceding companies. (Page 17)

CONCLUSION

The following schedule reflects the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2005</u>	<u>December 31, 2008</u>	<u>Increase (Decrease)</u>
Assets	\$617,128,662	\$510,442,432	\$(106,686,230)
Liabilities	\$542,941,815	\$452,865,899	\$(90,075,916)
Capital and Surplus	\$ 74,186,847	\$ 57,576,533	\$ (16,610,314)

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,

Lu Ann D. Therrell

Lu Ann D. Therrell, CFE
 Examiner In-Charge
 State of Delaware

SUBSEQUENT EVENTS

On January 22, 2009, the Company's parent SRUS and certain of SRUS' affiliates (together, Scottish Re) entered into a Master Asset Purchase Agreement (Purchase Agreement) with Hannover Life Reassurance Company of America and its affiliate (together, Hannover Re), Security Life of Denver (SLD), a subsidiary of ING (together, ING Companies). Hannover Re agreed to purchase from Scottish Re a block of individual life reinsurance business acquired in 2004 by Scottish Re from the ING Companies. This block consisted primarily of term life reinsurance, universal life with secondary guarantees, and yearly renewable term business (Acquired Business). The Acquired Business did not include business formerly reinsured with Ballantyne Re plc. The closing of the transactions contemplated by the Purchase Agreement, which included certain customary conditions to closing and the receipt of required governmental and regulatory approvals, occurred on February 20, 2009.

In connection with the Purchase Agreement, the transfer to Hannover Re of the Acquired Business generally was accomplished through the recapture by the ING Companies from Scottish Re of the Acquired Business, and the cession immediately thereafter by the ING Companies to Hannover Re of the Acquired Business under new reinsurance agreements. These recapture and reinsurance transactions have an effective date of January 1, 2009. Accordingly, SRUS' statutory financial statements for the period ending December 31, 2008, generally do not give effect to the results of the foregoing transaction.

The Purchase Agreement also relates to the purchase and sale of certain assets used by Scottish Re in connection with the administration of the Acquired Business and Scottish Re's retained business (including administration of the Company's business) and the transfer of

certain employees from Scottish Re to Hannover Re in connection therewith. Pursuant to the Purchase Agreement, the remaining lease on the SRUS' Denver office location was assigned to Hannover Re as was a portion of its Charlotte office location. In addition, Hannover Re entered into an administrative services agreement with Scottish Re pursuant to which Hannover Re will administer the accepted and ceded mortality business retained by Scottish Re and its affiliates. Similarly, Hannover Re entered into an administrative services agreement with the ING Companies pursuant to which Hannover Re will administer the Acquired Business and provide certain other administrative services to the ING Companies.

In connection with SRUS' receipt, beginning in the third quarter of 2008, of a permitted accounting practice related to credit for reinsurance ceded to certain unauthorized reinsurers, SRUS agreed to the entry by the Delaware Department of Insurance to an order of supervision against SRUS, effective January 5, 2009 (Order of Supervision), in accordance with 18 *Del. C.* §5942. Pursuant to the Order of Supervision, SRUS generally must receive prior written consent from the Department in order to engage in any transaction outside of the ordinary course of business; make certain payments or incur certain debts, obligations or liabilities in any transaction of \$1,000,000 or greater; engage in new business; lend any of its funds; invest any of its funds in a manner that deviates from the plan filed with the Delaware Department of Insurance; commute, novate, amend or otherwise change any existing reinsurance contract or treaty; or engage in any transaction with any related party. The Order of Supervision was amended and extended on April 3, 2009.

Subsequent to the examination period, the Company now utilizes an Investment Management Agreement, dated October 14, 2009, through its relationship as an indirect subsidiary of SALIC with Babson Capital Management LLC, an affiliate of Massachusetts

Scottish Re Life Corporation

Mutual Life Insurance Company. Use of Babson Capital Management LLC to provide investment management services for the Company's assets was approved by the Delaware Department of Insurance in connection with a Form D filing made by the Company.