



Frequently Asked Questions January 2005

We have accumulated some of the more frequently asked questions about Scottish Re. All of these questions or topics of discussion have been addressed in a number of different formats, whether investor conference calls, presentations, press releases, etc. However, in our effort to enhance investor knowledge and provide transparency about our business, we have created this document that we hope to update from time to time.

Certain statements included herein are "forward-looking statements" within the meaning of the federal securities laws. The management of Scottish Re Group Limited (the "Company") cautions that forward-looking statements are not guarantees, and that actual results could differ materially from those expressed or implied in the forward-looking statements. Important events that could cause the actual results of operations or financial condition of the Company to differ include, but are not necessarily limited to, the Company's ability to attract clients and generate business; the competitive environment; the Company's ability to underwrite business; performance of outside service providers; mortality risk; surrender risk; investment risk (including asset value risk, reinvestment risk and disintermediation risk); the impact of unforeseen economic changes (such as changes in interest rates, currency exchange rate, inflation rates, recession and other external economic factors); the impact of terrorist activities on the economy, the insurance and related industries in general and the Company in particular; regulatory changes (such as changes in U.S. tax law and insurance regulation which directly affect the competitive environment for the Company's products); rating agency policies and practices; and loss of key executives. Investors are also directed to consider the risks and uncertainties discussed in documents filed by the Company with the Securities and Exchange Commission.

1. What is your earnings guidance for 2005 taking into consideration the recently closed acquisition of the individual life reinsurance business of ING Re?

On the revenue front, we would expect to earn for the full year 2005, total revenue in the range of \$2.1 billion to \$2.3 billion, driven by earned premium in the range of \$1.9 to \$2.1 billion; investment income in the range of \$275 million to \$350 million; and fee income will be approximately \$10 to \$12 million for the year. Of the earned premium figure, approximately \$1.8 to \$2.0 billion is expected to be generated by our North American operations, and \$165 million to \$175 million expected to be generated by our International team.



Operating expenses for the combined operation are expected to be in the range of 4.9% to 5.2% of total revenue, which represents the further achievement of operating leverage in our organization.

Finally, the resulting operating earnings per share that we would expect to report for the year ended 2005 would be in the range of \$2.75 to \$2.95 per share, which represents an increase of approximately 30% over 2004's guidance. That breaks down into approximately 20% in organic operating eps growth over 2004, plus approximately 10% earnings accretion from the ING Re acquisition.

These earnings expectations result in a return on average equity of 15% for the full year ended 2005, which is one year earlier than our long-held objective.

2. Are Scottish Re's U.S. mortality pricing assumptions reasonable and how do those assumptions compare to industry mortality tables?

Mortality pricing tables are designed to reflect realistic mortality expectations. Development generally starts with an industry table such as, the SOA 75-80 or 85-90 tables, and then adjustments are made to reflect the underwriting practices and experience in the market and for the period for which the table is designed. Whether you start with the SOA 75-80, 85-90, or 90-95 basic tables, some adjustments are generally made to assure that mortality assumptions by duration are consistent with the underwriting practices for the business being priced.

The Scottish Re pricing tables originate with the 1985-90 SOA mortality tables. The slope inherent in these tables is modestly steeper than the experience in the 1975-80 tables.

The most recent SOA tables, the 1990-95 Basic and subsequent VBT tables, show experience significantly steeper than prior experience tables had shown. This result was to be expected given the makeup of business underlying the 90-95/VBT tables. The 90-95 experience period was made up of an unprecedented mix of watershed changes in underwriting approach. As an experience study, these tables fit a mortality curve to actual observed experience for the period. They do not represent an anticipated pattern of mortality for any one homogenous block of business.

As one examines the makeup of contributing experience to the 90-95/VBT tables, you can see, the very early durations are largely from the contemporary era of blood testing at \$100,000 and preferred underwriting. As one moves toward



durations 4-7, however, one crosses into a mostly pre-preferred era and one where blood testing was less prevalent. The experience for durations 8-11 move to an era before blood testing was at all common. Finally, the experience for durations 12 and beyond is generally non-blood tested business on an aggregate smoker/nonsmoker basis and has experienced a great deal of anti-selective lapse as non-smokers purchased much cheaper policies in the ensuing decade.

The implications of this are quite clear. The slope of mortality in the 90-95/VBT tables represents actual experience incurred during that timeframe. However, it does not track a single cohort and thus provide an indication of appropriate slope for a homogenous block of business. Slope inherently defines the relationship of later duration mortality to early duration mortality. Naturally, a comparison of duration 9 experience on non-blood tested, non-preferred business to duration 1 preferred business will produce a steeper slope than comparing duration 9 blood tested, preferred business to its own duration 1 experience. The 90-95/VBT tables inherently show an artificially steep slope as one jumps from one cohort of business to another with increasing mortality.

Scottish Re's pricing assumptions are intended to accurately represent the anticipated future mortality for its block of business, which is dominated by underwritten, preferred life insurance risks. As with any contemporary block of business that is from a homogenous era -- in Scottish Re case, blood tested, preferred risks -- the anticipated slope of mortality should follow a course less steep than the 9095/VBT tables.

- 3. Scottish Re has acquired some in-force blocks of business (such as ERC Life and ING Re), portions of which were written in the competitive, or "soft" pricing environment that generally prevailed in the U.S. prior to 2002. How do you ensure that the impact of that "soft" environment doesn't impact Scottish Re's performance?**

Scottish Re evaluates in-force blocks of business based on our own view of mortality, persistency, cost of capital and return requirements. They may or may not be consistent with the assumptions used in the original pricing of the business (based upon the purchase prices paid by Scottish Re in most of the transactions that we have completed, our assumptions differed from those used in the original pricing). Therefore the economics to Scottish Re in these transactions are fully expected to meet our shareholder return requirements.



4. How do you determine reserves in connection with block acquisitions? Do you use the mortality and other assumptions used by the seller?

In acquiring blocks of business, we “toss out” all of the assumptions used by the seller and start over using Scottish Re’s assumptions. Thus, reserves are calculated under US GAAP rules and reflect our current best estimate assumptions along with a provision for adverse deviations. Since reserves are established by us at the time of purchase – and not based on the reserve levels held by the seller – they generally reflect the emerging experience on the block since the policies were originally issued and reserved. In other words, when we acquire a block of business, we establish a new basis for reserves based upon our pricing that takes into account our estimates of the expected mortality development for the blocks.

5. Are you seeing any trends in your mortality experience?

Mortality experience continues to be favorable, with actual experience in the third quarter of the year to date running slightly below expected levels. Since inception of the traditional solutions business mortality is at approximately 95% of expected levels on a cumulative basis. We anticipate our mortality to continue to remain around 100% of expected and see no adverse trends emerging. As previously stated, the projections we use to develop our earnings guidance are based on 100% of expected mortality.

6. How does Scottish Re fund its Regulation XXX reserve strain?

At Scottish Re, we’ve been talking with analysts, investors and rating agencies about Regulation Triple-X since 1999. Yet, only in the past year has this reserve requirement received some focused attention from industry observers. Triple-X is a regulation that was adopted by the insurance departments of most states in late 1999 and early 2000. It prospectively (not retroactively) changed the reserving basis for term life policies that have long-term premium rate guarantees. Approximately 75% of the life business reinsured by Scottish Re since 2000 are subject to the XXX reserve requirement (the ERC block is pre-XXX business and approximately half of the ING Re block is pre-XXX). With XXX, the statutory reserve grows over time and, in the case of Scottish Re’s business, it peaks approximately 10-11 years from the date of issue and then declines to zero over time.



Today, Scottish Re funds the reserve strain using a variety of capital resources, including its equity and debt, as well as a number of other funding facilities, including various collateral and surplus relief facilities.

The facility with HSBC Bank USA, provides \$200 million of collateral support primarily for XXX related products. This facility reduces the strain on our existing capital by providing Scottish RE (U.S.) with credit-for-reinsurance collateral. The trust arrangement put in place for this facility is accounted for as a variable interest entity and is consolidated on our balance sheet. This is a five-year facility, which includes the option to extend annually for a further year upon the consent of both Scottish Re and our counterparty. Scottish Re's per annum cost of this facility is less than 100bps.

In addition, we recently closed another capital markets collateral facility, the Stingray Pass-Through Trust for \$325 million. The facility may be used to collateralize XXX or any other type of business need and Scottish Re's per annum cost of this collateral facility is approximately 170bps. In addition to the collateral provided, the facility allows our Cayman insurance company, Scottish Annuity & Life Insurance Company (Cayman) Ltd. ("SALIC") to issue funding agreements at a pre-determined price, without any conditions and at any time, in exchange for the assets in the portfolio. The Collateral Facility matures on January 12, 2015.

In connection with the ING Re acquisition, all of the XXX-reserves related to that business are provided for by ING at a fixed price for the life of the business. This unique transaction structure significantly increased the value of the transactions from our perspective by eliminating exposure to the XXX reserve development related to this block.

We are always exploring alternatives for more efficient alternatives to fund XXX collateral and we anticipate being active with capital markets related solutions.

7. Don't many life insurers and reinsurers use short-term letters of credit to secure their XXX reserves? Is that why you have a new \$175 million credit facility?

Many life insurers and reinsurers do use letters of credit to secure their XXX-strain. We believe that funding long duration liabilities with 364-day letters of credit is not suitable from an asset/liability management perspective because it creates significant refinancing or "rollover" risk every year. Some of the rating agencies have highlighted this potential risk in comments published during 2004.



At Scottish Re, we do not use LOCs to secure our XXX reserves. We have always fundamentally thought that the duration mismatch was inconsistent with our risk management philosophy. As of Sept. 30, 2004 we had approximately \$33 million of LOCs outstanding. Those LOCs were not funding XXX reserves, but were securing business written by our UK operation.

Scottish Re recently announced a \$175 million credit agreement with a syndicate of lenders. This agreement is an unsecured 364-day facility that allows use to issue letters of credit and borrow for working capital, capital expenditures and general corporate purposes. While this new credit facility could be used to fund XXX reserves (the practice followed by many industry participants), we do not have plans to use this facility as a long term XXX solution.

8. Please explain the impact of EITF 04-8 on your existing securities?

In 2002 we issued \$115 million 4.5% senior convertible notes. At the time of issue it was our intention to settle the notes in cash on conversion and at maturity. This was our intention but the terms of the notes provided us with the option to settle in cash or stock. During the quarter ended September 30, 2004, EITF 04-8 "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share" was issued. EITF 04-8 requires that instruments with embedded conversion features that are contingent upon market price triggers be included in diluted earnings per share calculations regardless of whether the contingency has been met. Our 4.5% senior convertible notes are convertible on the basis of a market price trigger. On October 26, 2004 we amended the terms of these notes so that we are required to settle the principal amount of \$115.0 million in cash. As a result we shall continue to apply the treasury stock method in calculating diluted earnings per share for amounts in excess of the principal of \$115.0 million. EITF 04-8 has no impact on the accounting for the HyCUs.

9. Some industry observers have questioned the accounting for your HyCUs, the mandatory convertible securities that were issued in a year ago. How do you account for this instrument?

With respect to the HyCUs, we have been aware - and we have made certain our securities holders are aware - that the bonds securities are dilutive. We are applying US GAAP to account for the securities. In calculating earnings per share we have applied the provisions of US GAAP that indicate the shares in respect of the forward contract of the HyCU be included in our diluted earnings per share count using the Treasury stock method. This happens when our share



price exceeds \$23.57 over 20 consecutive trading days. During 2004 to date we have recognized some dilution in respect of these securities. The securities will be converted and become fully dilutive in 2007. In applying US GAAP we have also recorded the present value of the forward contract adjustments payments as a liability with a corresponding reduction in shareholders' equity in accordance with FAS 150.

10. How did SCT get comfortable with the Universal Life With Secondary Guarantees business included with the ING Re block?

ULSG makes up a small portion of the overall ING Re block. ULSG business was structured as a modified YRT arrangement. As such, it is not subject to most of the inherent risks in the underlying ceding company's product. The program essentially has three primary risks to the reinsurer:

- 1) *Mortality risk.* This is the primary risk and is no different than any other YRT arrangement.
- 2) *Collateral for Reserve Credit.* The primary motivation for direct writers purchasing the reinsurance was relief from statutory reserve strains associated with these products. The treaties call for an explicit charge for the exact amount of relief generated each period. Through the ING transaction, ING has retained this risk by guaranteeing the necessary collateral and thus has eliminated this risk from SCT.
- 3) *Secondary Guarantee Risk.* In order to justify reserve credit, the treaties transfer to the reinsurer the secondary guarantee risk associated with low interest rate crediting. This is done by capping the YRT rates at the minimum level premium that the policyholder is required to pay if the account value should go to zero due to low interest crediting. All other risks affecting account value development (changes in COI, expense loads, etc.) remain with the ceding company, and any action triggers the reinsurer's right to re-price inforce business. Because the risk is limited to that associated with credited interest, and because the minimum credited interest is defined in the policyholder's contract and thus known, the 'worst case' scenario could be priced. ING priced the worst possible case outcome to return its cost of capital.

Both Scottish Re and an outside actuarial consulting firm reviewed the ULSG block and treaties. Because the risk in the product itself was tightly managed to a definable and minimal interest rate risk and ING is guaranteeing the collateral requirements, both firms concluded there was minimal additional risk associated with including the ULSG block with ING Re's other mortality related business.

Related questions:

- Who were these products marketed to? ING's solution was a niche solution marketed to companies who wanted a ULSG product, took a conservative view of the reserve regulations, and thus needed relief from the large reserve obligations. As such, few if any of these companies have any exposure to tighter interpretation of Regulation AXXX. To the extent reserve requirements were to change, the treaties call for an explicit charge for the amount of relief with the collateral support guaranteed by ING.
- Is the business lapse supported in a manner similar to Canada's T-100 products? While the underlying products may bear some resemblance, the reinsurance program does not. The ULSG reinsurance is not on a coinsurance basis. With increasing YRT premiums, lapses themselves do not create any unusual risks.
- With regard to interest crediting, how do you get comfortable with the risk? It is important to note that the only risk related to interest rates is to the extent that low crediting rates trigger the secondary guarantee. There is no reinsurance of the interest crediting itself. Because the underlying policies have a contractually guaranteed minimum interest rate (typically 3-4%), the worst-case scenario can be defined and priced for. There is no 'tail risk' relating to interest rates.
- What exactly happens to the reinsurance should the secondary guarantee kick in? Until the YRT scale exceeds the policyholder's required gross level premium, nothing. This means that for at least the first half of a policies potential life there is effectively no risk from the reinsurance perspective. Once the YRT scale exceeds the minimum required premium, if the guarantee was triggered due to sustained minimum interest rates, the YRT reinsurance premium is capped at the policyholder premium. This creates the modest risk of some YRT premium shortfall versus expected premium in the latter half of the policies life.
- How sensitive is the reinsurance profitability to movements in credited interest rate movements? Not very. Unless sustained minimal interest rates occur causing the guarantee to kick in many years in the future, then there will be minimal impact and the program acts as a vanilla YRT along with transfer of reserves paid for by explicit charges for the reserve relief. If low rates are sustained for many years, then as discussed there will be some YRT shortfall that could develop. Again, the products were priced to return ING's cost of capital should the worst possible outcome occur.
- How much ULSG business is there? ING began writing ULSG treaties in mid-2002 and like other major reinsurers also issuing such coverage was closing



down the treaties during 2004. The ULSG block made up about 2% of the face amount transferred and approximately 3% of statutory reserves.

11. What is the status of your NOL carry forwards following the ING Re acquisition?

We expect that tax associated with the negative ceding commission will be, in large part, absorbed by our existing NOL. However, Scottish Re expects to continue writing new business of approximately \$90 to \$100 billion of face amount in 2005, and we anticipate that our new business activity will generate new NOLs on a go forward basis.

12. How have you managed exposure to the options embedded in fixed deferred annuities?

Fixed deferred annuities have two embedded options: a guaranteed minimum credited rate and the right of the customer to surrender the policy, subject to a surrender charge. In order to limit exposure to these options, we are very careful in modeling, pricing and structuring the transactions and in managing the assets over the life of the transactions in such a manner that the transaction will produce acceptable returns to Scottish Re over a range of interest rate scenarios. We usually assume and invest to a portfolio duration that is shorter than our client's, particularly when we have an upward bias in our expectation of the trend in rates over the next five years. Over time, if rates are expected to trend upwards, we reduce risk by incrementally shortening duration to hedge the embedded surrender options. We seek protection in treaties to assure that new money and renewal rates will be set in a manner consistent with our pricing assumptions. With companies that are preoccupied with top line goals at the expense of profit and risk discipline, we will rarely find common ground to complete a transaction.

We also limit our overall exposure to these annuities by diversifying our asset-intensive business efforts. Products with little or no surrender exposures include:

- Collateralized funding agreements: we obtain investable funds by selling option-free, LIBOR-floating funding agreements directly to financial institutions. By buying LIBOR floating and very short duration fixed-rate assets, we minimize any interest rate risk. We have structured these transactions staggered maturities that minimize demands on future liquidity.



- Single premium immediate annuities: SPIAs combine longevity risk with investment risk. We are pursuing opportunities in the UK and Ireland, where demand by ceding companies is brisk.
- Disabled life reserves: we avoid exposure to new claims, but are willing to accept the longevity risk of disabled lives in run-off.
- Whole and universal life: we reinsure various permanent life plans on a coinsurance basis, combining mortality and investment risks.

13. Interest rates have trended upwards recently. How would a rising rate environment affect Scottish Re's operating strategy?

Our conservative approach to asset/liability management is designed to maintain the economic value of our business, regardless of where interest rates go. We integrate asset-liability management into the origination process as well as into in-force management. We set duration targets from the bottom up: for the portfolio segment backing each asset-intensive reinsurance transaction, we engineer the maturity structure and sector allocation that produces the most attractive and stable profits when combined with the liability. The duration of that model portfolio becomes the target duration for the portfolio segment backing that liability. We update targets for inforce business using fresh policy-level data and updated interest rate assumptions.

In addition, a rising rate environment should enhance the opportunity to write high quality Financial Solutions transactions. Furthermore, our earnings guidance and long-term ROE expectations are built and periodically updated with assumptions regarding the future movement of interest rates. Accordingly, we believe that a rising interest rate environment will contribute to building the Company's long-term economic value.