



**Annuity
& Life Re**

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
International Centre, Suite 304
26 Bermudiana Road
Hamilton HM 11
Bermuda**

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TIME 9:00 A.M. local time on December 16, 2008
PLACE Grotto Bay Beach Resort
11 Blue Hole Hill
Hamilton Parish, Bermuda

ITEMS OF BUSINESS

- (1) To elect one director to hold office as specified in the proxy statement
- (2) To ratify the selection of Marcum & Kliegman LLP as our independent registered public accounting firm to act as our auditors for the current fiscal year and to authorize our board of directors, acting by our Audit Committee, to set its remuneration
- (3) To act upon any other matters properly coming before the meeting or any adjournment thereof.

RECORD DATE The close of business on October 31, 2008 has been fixed as the record date for the meeting. All shareholders of record at that time are entitled to notice of and are entitled to vote in person or by proxy at the meeting and any adjournment or postponement thereof.

IMPORTANT It is important that your shares be voted at this meeting. Please **MARK, SIGN, DATE and MAIL** your proxy **PROMPTLY** in the return envelope provided, even if you plan to attend the meeting. If you later desire to revoke your proxy, you may do so in the manner described in the proxy statement.

By Order of our Board of Directors,

Martin A. Berkowitz
Chairman of the Board

October 27, 2008

The accompanying proxy statement is dated October 27, 2008 and is being mailed to shareholders of record on or about November 10, 2008.

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**Annuity
& Life Re**

**PROXY STATEMENT
ANNUITY AND LIFE RE (HOLDINGS), LTD.
International Centre, Suite 304
26 Bermudiana Road
Hamilton HM 11
Bermuda**

The Annual General Meeting of the Shareholders of Annuity and Life Re (Holdings), Ltd. (the “Company”) will be held at the Grotto Bay Beach Resort, 11 Blue Hill Hole, Hamilton Parish, Bermuda, at 9:00 A.M. local time on December 16, 2008. We are mailing this proxy statement to each holder of our issued and outstanding common shares entitled to vote at the meeting in order to furnish information relating to the business to be transacted at the annual meeting.

We fixed the close of business on October 31, 2008 as the record date for the annual meeting. All shareholders of record at that time are entitled to notice of and are entitled to vote at the annual meeting and any adjournment or postponement thereof.

At the annual meeting, you will be asked to consider and vote upon:

- (1) the election of one nominee to serve as director for the term as described in this proxy statement;
- (2) the ratification of the selection of Marcum & Kliegman LLP as the independent registered public accounting firm to act as our auditors for the current fiscal year and the authorization of our board of directors, acting by our Audit Committee, to set its remuneration;
- (3) any other matters properly coming before the meeting or any adjournment thereof.

Descriptions of each of these matters are included in this proxy statement.

The board has nominated the nominee for director to serve as described in this proxy statement. The board has also approved the selection of Marcum & Kliegman LLP as the independent registered public accounting firm to act as our auditors and has authorized the Audit Committee to set the firm’s remuneration. The board recommends that you vote “FOR” the election of the nominee to serve as director of the Company and “FOR” the ratification and selection of Marcum & Kliegman LLP.

Quorum and Voting

The presence of two or more persons representing in person or by proxy a majority of all outstanding common shares entitled to vote at the annual meeting is necessary to constitute a quorum. On each matter voted upon at the annual meeting and any adjournment or postponement thereof, each record holder of common shares will be entitled to one vote per share, except that certain provisions of our Bye-laws reduce the total voting power of any shareholder who:

- is a “United States person,” as defined in our Bye-laws, and who beneficially owns 10% or more of our common shares, to less than 10% of the total voting power of our share capital; and
- is not a “United States person,” as defined in our Bye-laws, and who beneficially owns 17% or more of the common shares, to less than 17% of the total voting power of our share capital.

As a result of these provisions, the voting rights of two institutional shareholders of the Company will be restricted such that these shareholders will effectively have less than one vote per share.

Vote Required

Under Proposal 1, each of our directors is elected by the affirmative vote of a majority of the votes cast on the election of that director at the annual meeting. Proposal 2 similarly will be decided by the affirmative vote of a majority of the votes cast on each proposal at the annual meeting. If you mark your proxy as “Abstain” on any matter, or if you give specific instructions that no vote be cast on any specific matter, the shares represented by your proxy will not be voted on such matter and will not count as votes cast at the meeting for the purpose of determining whether the proposal is approved, but will count in determining whether a quorum is present. Proxies submitted by brokers that do not indicate a vote for some or all of the proposals because they do not have discretionary voting authority and have not received instructions as to how to vote on those proposals (so called “broker nonvotes”) are also considered in determining whether a quorum is present, but will not affect the outcome of any vote.

Voting and Revocation of Proxies

You may vote your shares at the annual meeting in person or by proxy. We hope you will attend the annual meeting. Whether or not you plan to attend, please complete, sign, date and return the enclosed proxy in the accompanying envelope so that your common shares will be represented. The envelope is addressed to our transfer agent and requires no postage. If you receive more than one proxy card – because you have multiple accounts or hold common shares in more than one way – you should sign and return all proxies received in order to be sure all of your common shares are voted. The enclosed proxy also confers discretionary authority with respect to amendments or variations to the matters identified in the Notice of Annual Meeting and with respect to other matters that may be properly brought before the annual meeting.

All valid proxies received before the annual meeting will be voted according to their terms. If you complete your proxy properly, but do not provide instructions as to how to vote your shares, your proxy will be voted “FOR” the election of the nominees for directors under Proposal 1 and “FOR” Proposal 2 as described herein and set forth on the accompanying proxy card. If any other business is brought before the annual meeting, proxies without voting instructions will be voted, to the extent permitted under Bermuda law and the Company’s By-laws, in accordance with the judgment of the persons voting the proxies. After providing your proxy, you may revoke it at any time before it is voted at the annual meeting by filing with the Secretary of the Company an instrument revoking it or a duly executed proxy bearing a later date. You may also revoke your proxy by attending the annual meeting and giving notice of revocation. Attendance at the annual meeting will not by itself constitute revocation of a proxy.

Solicitation of Proxies

We will bear the cost of preparing and soliciting proxies, including the reasonable charges and expenses of brokerage firms or other nominees for forwarding proxy materials to beneficial owners of common shares. In addition to solicitation by mail, we may solicit proxies by telephone or other electronic means, or personally by certain directors, officers and employees of the Company and its subsidiaries who will receive no extra compensation, other than reimbursement for actual expenses incurred in connection with the solicitation. The enclosed proxy is solicited by and on behalf of our board of directors of the Company.

PROPOSAL ONE: Election of Director

Nominee for Director

Our board has nominated Albert R. Dowden for election as director with term expiring at the adjournment of the annual general meeting of shareholders in the year 2011.

Mr. Dowden will be elected by the affirmative vote of a majority of the votes cast at the annual meeting. The board recommends that you vote for the election of the nominee as director.

While our board has no reason to believe that the nominee will be unavailable to continue to serve as a director, if for any reason the nominee becomes unavailable to serve his term as a director, the common shares represented by proxies may be voted for the election of such substitute nominee as may be designated (and appointed as the nominee's replacement on the board pending such vote) by our board, to serve the remainder of a term that expires as of our 2009 annual general meeting.

Set forth below is biographical information concerning the nominee for election as a director and the individuals who are continuing as directors, including each individual's principal occupation and, if applicable, the period during which each person has served as a director of the Company.

Nominee For Director

Albert R. Dowden, age 66, has served as a director of the Company since 2003. Prior to his retirement in 1998, Mr. Dowden served as President and Chief Executive Officer of Volvo Group North America, Inc. and Senior Vice President of its Swedish parent company, AB Volvo. Prior to joining Volvo in 1974 as General Counsel to its North American operations, he practiced law with the New York based international law firm of Rogers & Wells (now Clifford Chance). Mr. Dowden currently serves as a director of the AIM Mutual Funds and is a founder and Managing Director of The Boss Group, a Houston and London based private investment and management firm. Mr. Dowden holds various positions with the Boss Group, including as a director of Continental Energy Services. Mr. Dowden also serves as a director of various Reich & Tang mutual funds, New York based money market funds and as director of Homeowners of America Holding Corporation and Homeowners of America Insurance Company. He also serves as a director or chairman of various New York based, and as well as internationally focused, charities. Mr. Dowden had previously served as a director of the Company from 1998 to 2000.

Continuing Directors

Director Whose Term Expires in 2009

William H. Mawdsley, age 57, was appointed Chief Executive Officer of the Company in October 2005. From January 2002 through October 2005, he served as Vice President of the Company and Chief Actuary of the Company's Bermuda operating subsidiary. Mr. Mawdsley has over 35 years of experience in the life insurance and annuity industries, and held multiple positions with Allmerica Financial from 1973 through October 2001. Mr. Mawdsley's

responsibilities at Allmerica included all actuarial aspects of individual insurance, and he focused on new individual product development and pricing. Mr. Mawdsley has been a Fellow of the Society of Actuaries since 1976, a Member of the American Academy of Actuaries since 1979, and a Chartered Life Underwriter since 1982.

Directors Whose Terms Expires in 2010

Martin A. Berkowitz, age 60, has served as a director of the Company since being appointed by the board in 2003, and became Chairman of the Board in August 2005. Mr. Berkowitz serves as Chief Financial Officer of ChildNet, a community based corporation that manages adoptive and foster care services for Broward County, Florida. From January 2005 until August 2006 Mr. Berkowitz was Chief Financial Officer of Miami-Dade County Public School District. From March 2004 until December 2004, Mr. Berkowitz served as President and Chief Executive Officer of the National Veterans Business Development Corporation, a provider of assistance to small businesses owned by veterans, where he had served as Senior Vice President and Chief Financial Officer since January 2001. From November 2000 through January 2001, Mr. Berkowitz was an independent consultant. Prior thereto, Mr. Berkowitz held various positions, including as a Senior Vice President and as Principal Controller, at Prudential Insurance Company of America Inc., a financial services company. Mr. Berkowitz serves as a director of Ready One Industries (formerly the National Center for the Employment of the Disabled), a not-for-profit (under United States Internal Revenue Code Section 501(c)(3) organization. Mr. Berkowitz serves on the Board of Directors of Gaming Partners International Corporation, a public company that provides casino currency and table game equipment worldwide.

Michael P. Esposito, Jr., age 69, has served as a director of the Company since its formation in 1997. He was non-executive Chairman of the Board of XL Capital Ltd from 1995 until December 27, 2007 and a director since 1986. XL Capital Ltd provides global insurance and reinsurance coverages to industrial, commercial and professional service firms, insurance companies and other enterprises. He also has served as a Chairman and a director of Syncora Holdings Ltd. since 2006 and has been the Chairman of the Board of Primus Guaranty Ltd. since March 2002. He has also served as a director of Forest City Enterprises, Inc. since 1995. Mr. Esposito served as Co-Chairman of Inter-Atlantic Capital Partners, Inc. from 1998 to 2000, having previously served as Vice Chairman from 1994 to 1998. Mr. Esposito served as Executive Vice President and Chief Corporate Compliance, Control and Administration Officer of The Chase Manhattan Corporation from 1992 to 1995, having previously served as Executive Vice President and Chief Financial Officer from 1987 to 1991.

Jeffrey D. Watkins, age 47, has served as a director of the Company since 2003. Mr. Watkins is currently the President of Prescott Group Capital Management, LLC, a registered investment advisor, and serves as the co-manager of the Prescott Tradition Fund, L.P. and Prescott Mid Cap, L.P. Until April 2007, Mr. Watkins also served as a director of Carreker Corporation. Prior to joining Prescott in July 2001, Mr. Watkins served for 18 years as a portfolio manager for Capital Advisors, Inc., a registered investment advisor, located in Tulsa, Oklahoma.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING
“FOR” THE ELECTION OF THE NOMINEE FOR DIRECTOR.**

PROPOSAL TWO: Ratification of the selection of Marcum & Kliegman LLP as our independent registered public accounting firm to act as our auditors and authorization of our Audit Committee to set its remuneration

The Audit Committee has selected, subject to ratification by our shareholders, Marcum & Kliegman LLP as the independent registered public accounting firm to act as our auditors for 2008. The Audit Committee asks you to ratify the selection of Marcum & Kliegman LLP to serve as our independent registered public accounting firm and act as our auditors for 2008. In addition to this ratification, holders of common shares are requested to authorize the board of directors of the Company, acting by the Audit Committee, to set the remuneration for Marcum & Kliegman LLP.

The affirmative vote of a majority of the votes cast at the annual meeting is required to ratify the selection of Marcum & Kliegman LLP. If a majority of the votes cast on this matter are not cast in favor of the appointment of Marcum & Kliegman LLP, our board of directors, acting by the Audit Committee, in its discretion may select another independent registered public accounting firm as soon as practicable.

A representative of Marcum & Kliegman LLP is expected to be present telephonically at the annual meeting and will be available to respond to appropriate questions. The representative will also have the opportunity to make a statement if he or she so desires.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING “FOR” THE RATIFICATION OF THE SELECTION OF MARCUM & KLIEGMAN LLP AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND AS AUDITORS FOR 2008 AND THE AUTHORIZATION OF THE BOARD OF DIRECTORS, ACTING THROUGH THE AUDIT COMMITTEE, TO SET MARCUM AND KLIEGMAN LLP’S COMPENSATION.

OTHER MATTERS

Our board of directors knows of no matters to be presented for action at the annual meeting other than those set forth in the attached notice and customary procedural matters. However, if any other matters should properly come before the annual meeting or any adjournment or postponement thereof, the proxies solicited hereby will be voted on such matters, to the extent permitted under Bermuda law and the Company’s Bye-laws, in accordance with the judgment of the persons voting such proxies.

CORPORATE GOVERNANCE

Independence

Our board of directors has adopted categorical standards for determining director independence. To satisfy these categorical standards, a director:

- must not have a “material relationship” with the Company, which we have defined as a relationship (*e.g.*, commercial, banking, consulting, legal, accounting, charitable or familial) that would require disclosure as a related party transaction under the United States Securities and Exchange Commission’s (“SEC”) rules and regulations; and
- must otherwise satisfy the requirements for “independence” under the listing standards of the New York Stock Exchange (“NYSE”).

Although we are no longer subject to any independence standards, we have chosen to assess the independence of our directors in reference to the definition of “independence” under Sections 303.01(b)(2)(a) and (3) of the NYSE’s listing standards.

Based on these categorical standards, our board has determined that, of the five directors who currently comprise our full board, the following three directors are independent: Messrs. Berkowitz, Dowden, and Watkins.

Committees of the Board

Our board of directors currently has an active Audit Committee. Our board also had active Corporate Governance, Compensation, Executive, Finance and Investment, Litigation, Strategic Review and Special Committees prior to 2006. The duties of the Corporate Governance and Compensation Committees were assumed by the Board of Directors following our 2005 annual meeting and all committees other than the Audit Committee were disbanded at that time. Each committee reports or reported to the full board.

Audit Committee. Our board appointed an Audit Committee to assist the board in its oversight of (i) the integrity of our financial statements; (ii) the independent registered public accounting firm’s qualifications, independence and performance; (iii) the performance of our internal audit function; and (iv) our compliance with legal and regulatory requirements. The Audit Committee presently consists of three directors (Messrs. Berkowitz (Chairman), Dowden, and Watkins). Our board determined that Mr. Berkowitz and Mr. Dowden qualify as an “audit committee financial expert,” as defined by SEC regulations. During 2007, the Audit Committee met four times.

The Audit Committee has adopted a written charter. A copy of the charter is posted on our website at www.alre.bm

Information Concerning Meetings

The board held 2 meetings during 2007; the Audit Committee held four meeting during 2007. Each director attended at least 67% of the aggregate meetings of our board and the committees of which he was a member during 2007. In addition, the non-management directors routinely met in executive session without members of management present. Mr. Berkowitz, as the non-management Chairman of the Board, served as the presiding director for these executive sessions.

The board encourages directors to attend each annual meeting of our shareholders. All five current directors attended last year's annual meeting.

Director Nominations

The independent members of the Company's board of directors currently recommend director nominees to the full board. The Company seeks individuals who are qualified to be directors, and if needed, will use a third-party search firm to assist in finding director candidates. The board of directors has established certain minimum qualifications that each individual director candidate must possess. These qualifications include that each director candidate: (a) should be an individual of the highest character and integrity; (b) should have sufficient experience to enable the director to make a meaningful contribution to the company and the board; (c) should be chosen without regard to sex, race, religion, national origin or age; and (d) should have sufficient time available to devote to the affairs of the Company to carry out the responsibilities of a director. After determining that a director candidate meets these qualifications, our board will review the requisite skills and characteristics of the potential new director, as well as the composition of our board as a whole. This review includes an assessment of the director's qualification as an independent director, as well as considerations of diversity, skills and experience in the context of the overall needs of our board.

The board will consider director candidates recommended by shareholders in the same manner as set forth above, if the recommendation is accompanied by sufficient information to assess the candidate's qualifications and contains the candidate's consent to serve as a director if elected. Shareholder recommendations may be submitted in writing to the board of directors at Annuity and Life Re (Holdings), Ltd., P.O. Box 98, Hamilton, HM AX, Bermuda. Shareholder recommendations must be made in accordance with our Bye-laws and the notice provisions set forth below under "Shareholder Proposals."

No third parties were engaged to evaluate or assist in identifying potential director nominees for the 2008 annual general meeting of shareholders.

Shareholder Communications with the Board

Shareholders may communicate directly with members of our board of directors by writing, as applicable, to the full board, a particular committee or a specific director c/o Annuity and Life Re (Holdings), Ltd., P.O. Box 98, Hamilton, HM AX, Bermuda.

COMPENSATION DISCUSSION AND ANALYSIS

Executive Compensation

The compensation and benefit programs for our executive are designed with the goal of being fair and reasonable – both for the employee and the Company. Furthermore, in recognition of where the Company stands with regard to its past and future, the level of total compensation is largely designed to encourage retention of the key executive.

Total Compensation

Total compensation consists of base salary, housing allowances and annual bonuses. In addition, the Company provides severance benefits and a variety of typical employee benefits. The Company does not provide any equity-based compensation or any type of long term compensation.

Base Salary has been established at levels necessary to attract and retain individuals in their position. Base salaries are not adjusted on a regular, annual basis. *Housing allowances* are provided to expatriate executives to help offset the high costs of living in and traveling to and from Bermuda. Housing allowances may be adjusted from time to time as those costs and tax impacts change. *Annual bonuses* are awarded early in the calendar year based on a review of performance during the prior calendar year against a previously established set of specific objectives, taking into account how the executive has contributed to that performance and recommendations from the chief executive officer. The annual bonus places a significant portion of total compensation at risk and linked to corporate goals.

Severance benefits have been established to help retain our executive. Such benefits become payable under one of three circumstances: i) if the Company terminates an executive for any reason other than “cause”; ii) if the executive terminates employment because of a reduction in base salary or housing allowance that the individual did not agree to; and iii) if the executive terminates employment for any other reason within the period commencing 90 days and ending 180 days following the effective time of (a) the acquisition of all of the outstanding equity securities of the Company or (b) the merger of the Company with another entity, other than a direct or indirect wholly owned subsidiary of the Company. “Cause” includes the following: fraud, theft or misappropriation or embezzlement of funds; willful violation of any express direction or any rule or regulation established by the Board; neglect of, or insubordination, incompetence or misconduct in the performance of, duties; conduct contrary to the best interests of the Company or its subsidiaries; and use of alcohol or other drugs which interferes with the performance of duties. There are no other “change in control” payments.

Employee benefits include contributions equal to 10% of base salary to a retirement plan; life insurance of two times annual base salary; medical and dental benefits; disability benefits; and reimbursement of health or golf club membership fees of up to \$1,500 per year.

Compensation Process

The independent members of the Board of Directors are responsible for all compensation decisions. They have reviewed and approved this Compensation Discussion and Analysis for inclusion in the Company's annual proxy statement.

SUMMARY COMPENSATION TABLE

The following table sets forth certain information for the Company's last fiscal year concerning the annual and long-term compensation paid to each of the named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus ¹ (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation ² (\$)
William H. Mawdsley, CEO ³	2007	250,000	182,500	-	-	-	-	182,500
	2006	250,000	182,500	-	-	-	-	182,500

- (1) The amounts listed as bonuses are cash bonuses earned in that year. A portion of the amounts listed as bonuses were paid during the subsequent fiscal year.
- (2) Includes housing allowances, retirement plan contributions and club membership fees in the amounts of \$156,000, \$25,000 and \$1,500.
- (3) A letter agreement was entered into on October 19, 2005 with Mr. Mawdsley setting forth the terms of his continued employment by the Company.

Grants of Plan Based Awards

The following table provides information about equity awards made to each of the named executives under our restricted stock plan in 2007 and 2006.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All other Stock Awards: Number of Shares of Stock or Units (#)	All other Option/SARs Awards: Number of Securities Underlying Options/SARs (#)	Exercise or base Price of Option/SARs Awards (\$/sh)	Grant Date Fair Value of Stock and Option/SARs Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (#)	Threshold (#)	Target (#)	Maximum (#)				
None											

Outstanding Equity Awards At December 31, 2007

The following table provides information on the holdings of stock option and stock appreciation rights by each director and named executive as of December 31, 2007. Each option grant is shown separately for each director or named executive.

Name	Option/SARs Awards					Stock Awards			Equity Incentive Plan Awards: Market Value or payout value of Unearned shares, units or other rights that have not vested
	Number of Securities underlying Unexercised Options/SAR's (#) Exercisable	Number of Securities underlying Unexercised Options/SAR's (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options	Option/SAR's Exercise price	Option/SARs Expiration Date	Number of Shares or Units of Stock that have not Vested	Market Value of shares or units of stock that not vested	Equity Incentive Plan Awards: Number of shares, units or other rights that have not vested	
Martin A Berkowitz	15,000 5,000 3,333	- - 1,667	- - -	1.170 1.000 1.160	08/14/2013 08/04/2014 12/01/2015	- - -	- - -	- - -	-
Albert R. Dowden	15,000 5,000 3,333	- - 1,667	- - -	1.170 1.000 1.160	06/03/2013 08/04/2014 12/01/2015	- - -	- - -	- - -	-
Jeffery D. Watkins	15,000 5,000 3,333	- - 1,667	- - -	1.170 1.000 1.160	06/03/2013 08/04/2014 12/01/2015	- - -	- - -	- - -	-
Michael P. Esposito, Jr.	540,653 2,000 2,500 2,500 2,500 2,500 5,000	- - - - - - -	- - - - - - -	\$14.060 20.125 17.938 28.500 19.640 1.130 1.000	01/15/2008 04/28/2008 04/27/2010 04/26/2011 04/25/2012 06/03/2013 08/04/2014	- - - - - - -	- - - - - - -	- - - - - - -	-
William H. Mawdsley	10,000	-	-	16.220	02/13/2012	-	-	-	-

Option Exercises and Stock Vested

The following table provides information for each named executive of the aggregate stock option exercises during 2007 and 2006 including the number of shares acquired and the value realized.

Name	Option Awards		Stock Awards	
	Number of Shares acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares acquired on Vesting (#)	Value Realized on Vesting (\$)
		None		

Employment Arrangements and Potential Payments Upon Termination or Change in Control

On October 19, 2005, we entered into a letter agreement with William H. Mawdsley setting forth the terms of his continued employment by the Company. Pursuant to the letter agreement with Mr. Mawdsley, he became Chief Executive Officer of the Company and its Bermuda operating company. He is entitled to an annual salary of \$250,000 and an additional \$13,000 per month as a housing and travel allowance. We have also agreed to continue to provide him with the same benefits he was currently receiving from us, and he will be eligible for bonus compensation at the discretion of our board of directors.

We may terminate Mr. Mawdsley at any time for any reason, but if such termination is without "cause" (as defined in the letter agreement), Mr. Mawdsley would be entitled to receive a severance payment of \$620,000 plus reasonable relocation expenses from Bermuda to the United States. He would also receive the foregoing severance payment if he resigned because of a reduction in his base salary or housing allowance to which he did not agree.

DIRECTOR COMPENSATION

Compensation of Directors

Our non-employee directors are paid a \$15,000 annual cash retainer each year on April 4 (or, if such date is not a business day, on the next business day thereafter). In addition, each non-employee director is entitled to receive \$2,500 per board meeting personally attended. The Chairman of the Board is entitled to receive an additional \$15,000 retainer. Our non-employee directors are compensated \$500 for attending telephonic meetings of 30 minutes or more. All directors are reimbursed for travel and other expenses incurred in attending meetings of our board or committees thereof. Directors who are employees of the Company or its subsidiaries are not paid any fees or additional compensation for service as members of our board or any committee thereof.

All new non-employee directors are automatically granted options to acquire 15,000 common shares upon their initial election to our board. Such options become exercisable in three equal annual installments commencing on the first anniversary of the date of grant. All options granted to non-employee directors under the Stock Option Plan have an exercise price equal to the greater of the fair market value of our common shares on the date of grant or \$1.00.

Director Compensation Table

The following table sets forth the compensation paid by the company to Non-employee directors for service rendered in the fiscal year ended December 31, 2007.

Name	Fees Earned or paid in			Non-equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All other Compensation	Total
	Cash (\$)	Stock Awards	Option Awards				
Martin A. Berkowitz	\$34,000	-	-	-	-	-	\$34,000
Alfred R. Dowden	\$18,500	-	-	-	-	-	\$18,500
Jeffery D. Watkins	\$19,000	-	-	-	-	-	\$19,000
Michael P. Esposito Jr.	\$18,000	-	-	-	-	-	\$18,000

(1)

- (1) Michael P. Esposito, Jr., was Chairman of the Board of XL Capital Ltd until December 2007. Fees earned by Mr. Esposito were paid to XL Capital Ltd.

SECURITY OWNERSHIP

Directors and Management

The table below sets forth certain information regarding the beneficial ownership of common shares by (a) each director of the Company, (b) each of our executive officers, and (c) all current executive officers and directors of the Company as a group. Each of the shareholders named below has sole voting power and sole investment power with respect to the shares indicated as beneficially owned, unless otherwise indicated. Unless otherwise indicated below, the information in the table represents beneficial ownership as of October 27, 2008 and the address for each beneficial owner is c/o Annuity and Life Re (Holdings), Ltd., P.O. Box HM 98, Hamilton, HM AX, Bermuda.

<u>Name of Beneficial Owner</u>	<u>Amount of common shares</u>	<u>Percent Of Class</u>
William H. Mawdsley (1)	96,100	*
Jeffrey D. Watkins (2).....	23,333	*
Albert R. Dowden (3).....	23,333	*
Martin A. Berkowitz (3).....	23,333	*
Michael P. Esposito, Jr. (4)	22,500	*
All current directors and executive officers as a group (five persons) (5).....	183,099	0.7%

* Less than 1%.

- (1) Includes 10,000 common shares issuable upon exercise of options that are currently exercisable.
- (2) Includes 23,333 common shares issuable upon exercise of options that are currently exercisable. Does not include 1,667 common shares issuable upon exercise of options that are not currently exercisable. Mr. Watkins, a director of the Company, is currently the President of Prescott Group Capital Management L.L.C. and may be considered to have voting and investment control over 3,662,000 common shares owned by it or its affiliated entities; Mr. Watkins disclaims beneficial ownership with respect to such shares, except to the extent of any indirect pecuniary interest he may have by virtue of any ownership interest in the Prescott Group entities.
- (3) Includes 23,333 common shares issuable upon exercise of options that are currently exercisable. Does not include 1,667 common shares issuable upon exercise of options that are not currently exercisable.
- (4) Includes 17,000 common shares issuable upon exercise of options that are currently exercisable.
- (5) Includes 96,999 common shares issuable upon exercise of options that are currently exercisable.

Certain Registered Shareholders

The following table indicates the registration of five percent or more of our common stock registered either with the Company stock transfer agent or the Depository Trust Company.

Name of Registered Owner	Amount Ownership	Percent of Class
Pershing LLC	3,854,183	15.7%
National Financial Services LLC	3,849,126	15.7%
Bear Stearns Securities Corp.	3,755,301	15.3%
Charles Schwab & Co,	3,545,722	14.5%
XL Capital Ltd	2,836,880	11.6%
Goldman Sachs & Co.	1,645,470	6.7%

Audit Committee Report

In connection with management's preparation of our financial statements for the year ended December 31, 2007, the Audit Committee reviewed and discussed the audited financial statements with management and Marcum & Kliegman LLP, our independent registered public accounting firm and auditors for the year ended December 31, 2007.

Management has the primary responsibility for preparing our financial statements and the overall reporting process, including our system of internal controls. Marcum & Kliegman LLP audits the annual financial statements prepared by management, expresses an opinion as to whether those financial statements present fairly, in all material respects, the financial condition, results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States and discusses with the Audit Committee its independence and any other matters it is required to discuss or that it believes should be raised with the Audit Committee. The Audit Committee oversees these processes, although it must rely on the information provided to it and on the representations made by management and the independent registered public accounting firm.

The Audit Committee has discussed with Marcum & Kliegman LLP the results of its audit and the matters required by Statement of Auditing Standard No. 61. In addition, the Audit Committee has received from Marcum & Kliegman LLP a letter providing the disclosure required by Independence Standard Board Standard No. 1 and has discussed with Marcum & Kliegman LLP the information required to determine the auditor's independence. Based on the results of these reviews and discussions, the Audit Committee recommended to our board that the audited financial statements be included in our 2007 Annual Report to Shareholders.

THE AUDIT COMMITTEE

Martin A. Berkowitz (Chairman)

Albert R. Dowden

Jeffrey D. Watkins

**AUDIT-RELATED MATTERS AND INFORMATION RELATING TO OUR
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM/AUDITORS**

The following summarizes the fees billed to the Company by Marcum & Kliegman LLP in connection with the audit of our annual financial statements for the year ended December 31, 2007 and December 31, 2006.

Audit Fees:

2007: \$ 65,730

2006: \$ 70,815

Audit-Related Fees:

2007: None

2006: None

Tax Fees:

2007: \$ 1,382

2006: \$ 11,349

All Other Fees:

2007: None

2006: None

ADDITIONAL INFORMATION

Executive Officer

Biographical Information

Biographical information concerning William H. Mawdsley, our Chief Executive Officer, is set forth above under “PROPOSAL ONE: Election of Director”

Certain Relationships and Related Party Transactions

Director Nominee Arrangements

XL Capital Ltd has the right to nominate one person for election as a director of the Company for so long as it owns at least 500,000 common shares. Michael P. Esposito, Jr., a director of the Company, served as the non-executive Chairman of the Board of XL Capital Ltd. until December 27, 2007.

Transactions with Shareholders

On November 21, 2007 the Company purchased 275,000 shares from an unrelated shareholder. The purchase price of the shares was \$0.52 per common share, a discount of 15% below the then current market price. There were no other rights associated with the repurchased shares.

Shareholder Proposals

Shareholder proposals may be included in our proxy statement. We follow the rules of the Securities and Exchange Commission regarding such proposals. Any shareholder desiring to have a proposal included in our proxy statement for the annual meeting to be held in 2009 must deliver a proposal that complies with Rule 14a-8(e) under the Exchange Act to the attention of our Secretary at our executive offices on or before July 17, 2009. Where a shareholder does not seek inclusion of a proposal in the proxy material and submits a proposal outside of the process described in Rule 14a-8 of the Exchange Act, the proposal must be received by our Secretary at our executive offices on or before September 25, 2009, or it will be deemed “untimely” for purposes of Rule 14a-4(c) under the Exchange Act and, therefore, the proxies will have the right to exercise discretionary authority with respect to such proposal. We have not received any such proposal to be submitted from the floor at the upcoming meeting.

MANAGEMENT HOPES THAT SHAREHOLDERS WILL ATTEND THE MEETING. **WHETHER OR NOT YOU PLAN TO ATTEND, YOU ARE URGED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE.** A PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE MEETING AND YOUR COOPERATION IS APPRECIATED. SHAREHOLDERS WHO ATTEND THE MEETING MAY VOTE THEIR STOCK PERSONALLY EVEN THOUGH THEY HAVE SENT IN THEIR PROXIES.

By Order of our Board of Directors,

Martin A. Berkowitz
Chairman of the Board

October 27, 2008

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