Enstar Group LTD
Form 10-Q
August 03, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
Commission File Number 001-33289

ENSTAR GROUP LIMITED
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| BERMUDA | N/A |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

Windsor Place, 3rd Floor, 22 Queen Street, Hamilton HM JX, Bermuda
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (441) 292-3645

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Large accelerated filer | þ | Accelerated filer | ¨ | Non-accelerated filer | ¨ | Smaller reporting company | ¨ | Emerging growth company | ¨ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
As of August 2, 2017, the registrant had outstanding 16,421,611 voting ordinary shares and 3,004,443 non-voting convertible ordinary shares, each par value $1.00 per share.

Table of Contents

Enstar Group Limited
Quarterly Report on Form 10-Q
For the Period Ended June 30, 2017

Table of Contents

Table of Contents

PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
As of June 30, 2017 and December 31, 2016

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| | (expressed in thousands of U.S. dollars, except share data) | |
| ASSETS | | |
| Short-term investments, trading, at fair value | $ 327,595 | $ 222,918 |
| Short-term investments, available-for-sale, at fair value (amortized cost: 2017 — $nil; 2016 — $287) | — | 268 |
| Fixed maturities, trading, at fair value | 5,644,098 | 4,388,242 |
| Fixed maturities, available-for-sale, at fair value (amortized cost: 2017 — $228,762; 2016 — $269,577) | 228,771 | 267,499 |
| Equities, trading, at fair value | 106,240 | 95,047 |
| Other investments, at fair value | 890,943 | 937,047 |
| Other investments, at cost | 128,296 | 131,651 |
| Total investments | 7,325,943 | 6,042,672 |
| Cash and cash equivalents | 681,068 | 954,871 |
| Restricted cash and cash equivalents | 423,683 | 363,774 |
| Funds held - directly managed | 1,205,592 | 994,665 |
| Premiums receivable | 443,201 | 406,676 |
| Deferred tax assets | 13,988 | 11,374 |
| Prepaid reinsurance premiums | 247,901 | 219,115 |
| Reinsurance balances recoverable | 1,477,433 | 1,460,743 |
| Reinsurance balances recoverable, at fair value | 554,759 | — |
| Funds held by reinsured companies | 84,073 | 82,073 |
| Deferred acquisition costs | 76,643 | 58,114 |
| Goodwill and intangible assets | 182,504 | 184,855 |
| Other assets | 851,227 | 842,356 |
| Assets held for sale | 1,262,756 | 1,244,456 |
| TOTAL ASSETS | $ 14,830,771 | $ 12,865,744 |
| | | |
| LIABILITIES | | |
| Losses and loss adjustment expenses | $ 5,749,087 | $ 5,987,867 |
| Losses and loss adjustment expenses, at fair value | 1,892,297 | — |
| Policy benefits for life and annuity contracts | 114,727 | 112,095 |
| Unearned premiums | 588,082 | 548,343 |
| Insurance and reinsurance balances payable | 470,055 | 394,021 |
| Deferred tax liabilities | 22,393 | 28,356 |
| Debt obligations | 640,787 | 673,603 |
| Other liabilities | 781,494 | 705,318 |
| Liabilities held for sale | 1,142,560 | 1,150,787 |
| TOTAL LIABILITIES | 11,401,482 | 9,600,390 |
| | | |
| COMMITMENTS AND CONTINGENCIES | | |

| | | |
|---|---|---|
| REDEEMABLE NONCONTROLLING INTEREST | 457,646 | 454,522 |
| SHAREHOLDERS' EQUITY | | |
| Share capital authorized, issued and fully paid, par value $1 each (authorized 2017 and 2016: 156,000,000): | | |
| Ordinary shares (issued and outstanding 2017: 16,385,570; 2016: 16,175,250) | 16,386 | 16,175 |
| Non-voting convertible ordinary shares: | | |
| Series C (issued and outstanding 2017: 2,599,672; 2016: 2,792,157) | 2,600 | 2,792 |
| Series E (issued and outstanding 2017: 404,771; 2016: 404,771) | 405 | 405 |
| Series C Preferred Shares (issued 2017: 388,571; 2016: 388,571) | 389 | 389 |
| Treasury shares at cost (Preferred shares 2017: 388,571; 2016: 388,571) | (421,559) | (421,559) |
| Additional paid-in capital | 1,386,332 | 1,380,109 |
| Accumulated other comprehensive loss | (18,611) | (23,549) |
| Retained earnings | 1,996,283 | 1,847,550 |
| Total Enstar Group Limited Shareholders' Equity | 2,962,225 | 2,802,312 |
| Noncontrolling interest | 9,418 | 8,520 |
| TOTAL SHAREHOLDERS' EQUITY | 2,971,643 | 2,810,832 |
| TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY | $ 14,830,771 | $ 12,865,744 |

See accompanying notes to the unaudited condensed consolidated financial statements

1

Table of Contents

ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three and Six Months Ended June 30, 2017 and 2016

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (expressed in thousands of U.S. dollars, except share and per share data) | | | |
| INCOME | | | | |
| Net premiums earned | $155,571 | $208,709 | $304,469 | $401,596 |
| Fees and commission income | 18,667 | 10,487 | 30,581 | 16,911 |
| Net investment income | 49,417 | 44,932 | 98,156 | 95,212 |
| Net realized and unrealized gains | 51,877 | 34,503 | 110,396 | 72,780 |
| Other income | 10,856 | 3,289 | 23,054 | 5,699 |
| | 286,388 | 301,920 | 566,656 | 592,198 |
| EXPENSES | | | | |
| Net incurred losses and loss adjustment expenses | 9,620 | 96,462 | 87,512 | 179,680 |
| Life and annuity policy benefits | 4,289 | (1,613) | 3,988 | (1,455) |
| Acquisition costs | 30,355 | 43,847 | 51,176 | 88,876 |
| General and administrative expenses | 106,490 | 104,206 | 208,958 | 197,140 |
| Interest expense | 7,573 | 5,421 | 14,441 | 10,819 |
| Net foreign exchange losses (gains) | 7,122 | (1,856) | 10,837 | (84) |
| Loss on sale of subsidiary | 9,609 | — | 9,609 | — |
| | 175,058 | 246,467 | 386,521 | 474,976 |
| EARNINGS BEFORE INCOME TAXES | 111,330 | 55,453 | 180,135 | 117,222 |
| INCOME TAXES | (4,731) | (8,050) | (1,802) | (15,419) |
| NET EARNINGS FROM CONTINUING OPERATIONS | 106,599 | 47,403 | 178,333 | 101,803 |
| NET EARNINGS (LOSSES) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE | (4,871) | 2,378 | (4,500) | 2,583 |
| NET EARNINGS | 101,728 | 49,781 | 173,833 | 104,386 |
| Less: Net earnings attributable to noncontrolling interest | (11,542) | (9,187) | (28,967) | (18,272) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $90,186 | $40,594 | $144,866 | $86,114 |
| | | | | |
| Earnings per ordinary share attributable to Enstar Group Limited: | | | | |
| Basic: | | | | |
| Net earnings from continuing operations | $4.90 | $1.98 | $7.71 | $4.33 |
| Net earnings (losses) from discontinued operations | (0.25) | 0.12 | (0.23) | 0.13 |
| Net earnings per ordinary share | $4.65 | $2.10 | $7.48 | $4.46 |
| Diluted: | | | | |
| Net earnings from continuing operations | $4.87 | $1.97 | $7.66 | $4.30 |
| Net earnings (losses) from discontinued operations | (0.25) | 0.12 | (0.23) | 0.13 |
| Net earnings per ordinary share | $4.62 | $2.09 | $7.43 | $4.43 |
| Weighted average ordinary shares outstanding: | | | | |
| Basic | 19,387,650 | 19,295,280 | 19,381,225 | 19,289,119 |
| Diluted | 19,511,429 | 19,430,464 | 19,506,077 | 19,420,541 |

See accompanying notes to the unaudited condensed consolidated financial statements

2

Table of Contents

ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Six Months Ended June 30, 2017 and 2016

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (expressed in thousands of U.S. dollars) | | | |
| NET EARNINGS | $101,728 | $49,781 | $173,833 | $104,386 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized holding gains on fixed income investments arising during the period | 1,693 | 2,400 | 2,379 | 9,364 |
| Reclassification adjustment for net realized gains included in net earnings | (102) | (113) | (251) | (135) |
| Unrealized gains arising during the period, net of reclassification adjustment | 1,591 | 2,287 | 2,128 | 9,229 |
| Currency translation adjustment | 2,315 | (4,542) | 4,257 | 6,053 |
| Total other comprehensive income (loss) | 3,906 | (2,255) | 6,385 | 15,282 |
| Comprehensive income | 105,634 | 47,526 | 180,218 | 119,668 |
| Less: Comprehensive income attributable to noncontrolling interest | (12,333) | (9,353) | (30,415) | (19,919) |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $93,301 | $38,173 | $149,803 | $99,749 |

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2017 and 2016

| | Six Months Ended June 30, 2017 | 2016 |
|---|---|---|
| | (expressed in thousands of U.S. dollars) | |
| Share Capital — Ordinary Shares | | |
| Balance, beginning of period | $ 16,175 | $ 16,133 |
| Issue of shares | 19 | 34 |
| Conversion of Series C Non-Voting Convertible Ordinary Shares | 192 | — |
| Balance, end of period | $ 16,386 | $ 16,167 |
| Share Capital — Series A Non-Voting Convertible Ordinary Shares | | |
| Balance, beginning of period | $ — | $ 2,973 |
| Shares converted to Series C Convertible Participating Non-Voting Perpetual Preferred Stock | — | (2,973) |
| Balance, end of period | $ — | $ — |
| Share Capital — Series C Non-Voting Convertible Ordinary Shares | | |
| Balance, beginning of period | $ 2,792 | $ 2,726 |
| Conversion to Ordinary Shares | (192) | — |
| Balance, end of period | $ 2,600 | $ 2,726 |
| Share Capital — Series E Non-Voting Convertible Ordinary Shares | | |
| Balance, beginning and end of period | $ 405 | $ 405 |
| Share Capital — Series C Convertible Participating Non-Voting Perpetual Preferred Stock | | |
| Balance, beginning of period | $ 389 | $ — |
| Conversion of Series A Non-Voting Convertible Ordinary Stock | — | 389 |
| Balance, beginning and end of period | $ 389 | $ 389 |
| Treasury Shares | | |
| Balance, beginning and end of period | $ (421,559) | $ (421,559) |
| Additional Paid-in Capital | | |
| Balance, beginning of period | $ 1,380,109 | $ 1,373,044 |
| Issue of shares and warrants | 66 | 360 |
| Conversion of Series A Non-Voting Convertible Ordinary Stock | — | 2,584 |
| Amortization of equity incentive plan | 6,157 | 602 |
| Balance, end of period | $ 1,386,332 | $ 1,376,590 |
| Accumulated Other Comprehensive Loss | | |
| Balance, beginning of period | $ (23,549) | $ (35,162) |
| Currency translation adjustment | | |
| Balance, beginning of period | (18,993) | (23,790) |
| Change in currency translation adjustment | 4,253 | 6,053 |
| Balance, end of period | (14,740) | (17,737) |
| Defined benefit pension liability | | |
| Balance, beginning and end of period | (4,644) | (7,723) |
| Unrealized gains (losses) on investments | | |
| Balance, beginning of period | 88 | (3,649) |
| Change in unrealized gains (losses) on investments | 685 | 7,582 |
| Balance, end of period | 773 | 3,933 |

| | | |
|---|---|---|
| Balance, end of period | $ (18,611) | $ (21,527) |
| Retained Earnings | | |
| Balance, beginning of period | $ 1,847,550 | $ 1,578,312 |
| Net earnings attributable to Enstar Group Limited | 144,866 | 86,114 |
| Accretion of redeemable noncontrolling interests to redemption value | (1,015) | (1,803) |
| Cumulative effect of change in accounting principle | 4,882 | — |
| Balance, end of period | $ 1,996,283 | $ 1,662,623 |
| Noncontrolling Interest (excludes Redeemable Noncontrolling Interest) | | |
| Balance, beginning of period | $ 8,520 | $ 3,911 |
| Net earnings attributable to noncontrolling interest | 898 | (270) |
| Balance, end of period | $ 9,418 | $ 3,641 |

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2017 and 2016

| | Six Months Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (expressed in thousands of U.S. dollars) | |
| OPERATING ACTIVITIES: | | |
| Net earnings | $173,833 | $104,386 |
| Net losses (earnings) from discontinued operations | 4,500 | (2,583) |
| Adjustments to reconcile net earnings to cash flows used in operating activities: | | |
| Net realized (gains) losses on sale of investments | (74) | (747) |
| Net unrealized (gains) on investments | (88,304) | (72,033) |
| Other non-cash items | 5,352 | 3,811 |
| Depreciation and other amortization | 18,797 | 18,833 |
| Net change in trading securities held on behalf of policyholders | 25,597 | (996) |
| Sales and maturities of trading securities | 2,225,349 | 1,633,179 |
| Purchases of trading securities | (3,616,862) | (1,546,895) |
| Net loss on sale of subsidiary | 9,609 | — |
| Changes in: | | |
| Reinsurance balances recoverable | (570,731) | 131,841 |
| Funds held by reinsured companies | (212,927) | (1,081,542) |
| Losses and loss adjustment expenses | 1,646,721 | 701,414 |
| Policy benefits for life and annuity contracts | 64 | (6,534) |
| Insurance and reinsurance balances payable | 75,890 | 42,715 |
| Unearned premiums | 39,739 | 34,200 |
| Other operating assets and liabilities | 898 | (143,086) |
| Net cash flows used in operating activities | (262,549) | (184,037) |
| INVESTING ACTIVITIES: | | |
| Acquisitions, net of cash acquired | — | 9,924 |
| Sales and maturities of available-for-sale securities | 45,932 | 55,443 |
| Purchase of available-for-sale securities | (162) | (47,798) |
| Purchase of other investments | (67,516) | (18,230) |
| Redemption of other investments | 152,650 | 77,971 |
| Other investing activities | (9,708) | (1,597) |
| Net cash flows provided by investing activities | 121,196 | 75,713 |
| FINANCING ACTIVITIES: | | |
| Dividends paid to noncontrolling interest | (27,458) | — |
| Receipt of loans | 489,100 | 154,048 |
| Repayment of loans | (528,500) | (140,500) |
| Net cash flows provided by (used in) financing activities | (66,858) | 13,548 |
| EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS | 636 | 451 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (207,575) | (94,325) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,318,645 | 1,295,169 |
| CHANGE IN CASH OF BUSINESSES HELD FOR SALE | (6,319) | — |

| | | |
|---|---|---|
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $1,104,751 | $1,200,844 |
| | | |
| Supplemental Cash Flow Information: | | |
| Income taxes paid, net of refunds | $6,538 | $15,830 |
| Interest paid | $8,959 | $10,578 |
| | | |
| Reconciliation to Consolidated Balance Sheets: | | |
| Cash and cash equivalents | 681,068 | 759,584 |
| Restricted cash and cash equivalents | 423,683 | 441,260 |
| Cash, cash equivalents and restricted cash | $1,104,751 | $1,200,844 |

See accompanying notes to the unaudited condensed consolidated financial statements

5

Table of Contents

ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and December 31, 2016

(Tabular information expressed in thousands of U.S. dollars except share and per share data)

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Preparation and Consolidation

These unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments consisting of normal recurring items considered necessary for a fair presentation under U.S. GAAP. The results of operations for any interim period are not necessarily indicative of results of the full year. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2016. All significant inter-company transactions and balances have been eliminated. Results of operations for acquired subsidiaries are included from the date of acquisition. In these notes, the terms "we," "us," "our," or "the Company" refer to Enstar Group Limited and its consolidated subsidiaries. Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on net earnings.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from these estimates. Results of changes in estimates are reflected in earnings in the period in which the change is made. Our principal estimates include, but are not limited to:

- liability for losses and loss adjustment expenses ("LAE");
- liability for policy benefits for life and annuity contracts;
- reinsurance balances recoverable;
- gross and net premiums written and net premiums earned;
- impairment charges, including other-than-temporary impairments on investment securities classified as available-for-sale or held-to-maturity, and impairments on goodwill, intangible assets and deferred charges;
- fair value measurements of investments;
- fair value estimates associated with accounting for acquisitions;
- fair value estimates associated with loss portfolio transfer reinsurance agreements for which we have elected the fair value option; and
- redeemable noncontrolling interests.

### Significant New Accounting Policies

As a result of electing the fair value option in relation to the two new transactions described in Note 2 - "Significant New Business", we adopted a significant new accounting policy during the six months ended June 30, 2017. Other than the policy described below, there have been no material changes to the Company’s significant accounting policies from those described in Note 2 - "Significant Accounting Policies" to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016.

Retroactive Reinsurance - Fair Value Option

In our Non-life Run-off segment we have elected to apply the fair value option for certain loss portfolio transfer reinsurance transactions. This is an irrevocable election that applies to all balances under the insurance contract, including funds held assets, reinsurance recoverable, and the liability for losses and loss adjustment expenses.

The Company uses an internal model to calculate the fair value of the liability for losses and loss adjustment expenses and reinsurance recoverable asset. Note 6 - "Fair Value Measurements" describes the internal model, including the observable and unobservable inputs used in the model.

New Accounting Standards Adopted in 2017

Accounting Standards Update ("ASU") 2017-08, Premium Amortization on Purchased Callable Debt Securities

In March 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-08, which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. The adoption of this guidance did not have a material impact on our consolidated financial statements.

ASU 2016-09, Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The impact of adopting this guidance on our consolidated financial statements was a cumulative-effect adjustment of $4.9 million to opening retained earnings for the excess tax benefit not previously recognized.

ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting

In March 2016, the FASB issued ASU 2016-07, which simplifies the equity method of accounting by eliminating the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in the level of ownership interest or degree of influence. Entities are therefore required to apply the guidance prospectively to increases in the level of ownership interest or degree of influence occurring after the ASU’s effective date. The ASU further requires that unrealized holding gains or losses in accumulated other comprehensive income related to an available-for-sale security that becomes eligible for the equity method be recognized in earnings as of the date on which the investment qualifies for the equity method. The adoption of this guidance did not have any impact our consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

Note 2 - "Significant Accounting Policies" to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 describes accounting pronouncements that were not adopted as of December 31, 2016. Those pronouncements are not yet adopted unless discussed above in "New Accounting Standards Adopted in 2017". In addition, the following pronouncements were issued during the six months ended June 30, 2017 and are not yet adopted.

ASU 2017-09, Stock Compensation - Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Accounting Standards Codification (“ASC”) 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The ASU’s amendments are effective for interim and annual reporting periods beginning after December 15, 2017, although early adoption is permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU 2017-07, which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The ASU requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost (the "other components") and present it with other current compensation costs for related employees in the statement of earnings, and (2) present the other components elsewhere in the statement of earnings and outside of income from operations if such a subtotal is presented. The ASU also requires entities to disclose the captions within the statement of earnings that contain the other components if they are not presented on appropriately described separate lines. In addition, only the service-cost component of the net benefit cost is eligible for capitalization, which is a change from current practice, under which entities capitalize the aggregate net benefit cost when applicable. The ASU's amendments are effective for interim and annual reporting periods beginning after December 15, 2017, although early adoption is permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

In February 2017, the FASB issued ASU 2017-05 to clarify the scope of the Board's guidance on nonfinancial asset derecognition (ASC 610-20) as well as the accounting for partial sales of nonfinancial assets. The ASU conforms the derecognition on nonfinancial assets with the model for transactions in the new revenue standard (ASC 606, as amended). The ASU clarifies that ASC 610-20 applies to the derecognition of all nonfinancial assets and in-substance nonfinancial assets. The ASU also requires an entity to derecognize the nonfinancial asset or in-substance nonfinancial asset in a partial sale transaction when (1) the entity ceases to have a controlling financial interest in a subsidiary pursuant to ASC 810, and (2) control of the asset is transferred in accordance with ASC 606. The ASU is effective for interim and annual reporting periods beginning after December 15, 2017. We expect to adopt this guidance on January 1, 2018 using the modified retrospective approach. We do not expect this adoption to have a material impact on our consolidated financial statements.

2. SIGNIFICANT NEW BUSINESS

RSA

On February 7, 2017, we entered into an agreement to reinsure U.K. employers' liability legacy business of RSA Insurance Group PLC ("RSA"). Pursuant to the transaction, our subsidiary assumed gross insurance reserves of £1,046.4 million ($1,301.8 million), relating to 2005 and prior year business. Net insurance reserves assumed were £927.5 million ($1,153.9 million) and the reinsurance premium paid to Enstar's subsidiary was £801.6 million ($997.2 million). We elected the fair value option for this reinsurance contract. The initial fair value adjustment on the gross reserves was $174.1 million, and on the net reserves was $156.7 million. Refer to Note 6 - "Fair Value Measurements" for a description of the fair value process and assumptions.

Following the initial reinsurance transaction, which transferred the economics of the portfolio up to the policy's limits, we and RSA are pursuing a portfolio transfer of the business under Part VII of the Financial Services and Markets Act 2000, which would provide legal finality for RSA's obligations. The transfer is subject to court, regulatory and other approvals.

QBE

On January 11, 2017, we closed a transaction to reinsure multi-line property and casualty business of QBE Insurance Group Limited ("QBE"). Our subsidiary assumed gross reinsurance reserves of approximately $1,019.0 million (net

reserves of $447.0 million) relating to the portfolio, which primarily includes workers' compensation, construction defect, and general liability discontinued lines of business. We elected the fair value option for this reinsurance contract. The initial fair value adjustment on the gross reserves was $180.0 million, and on the net reserves was $43.2 million. Refer to Note 6 - "Fair Value Measurements" for a description of the fair value process and assumptions.
In addition our subsidiary has pledged a portion of the premium as collateral to a subsidiary of QBE, and we have provided additional collateral and a limited parental guarantee.

## 3. HELD-FOR-SALE BUSINESSES

On May 12, 2017, we entered into a definitive agreement to sell Laguna Life DAC ("Laguna") for total consideration of €25.6 million (approximately $29.2 million) to a subsidiary of Monument Re Limited. The transaction is expected to close in the third quarter of 2017. The closing of the transaction is subject to customary closing conditions, including regulatory approvals. The proceeds of the sale are expected to be used for general corporate purposes.

On February 17, 2017, we entered into a definitive agreement to sell Pavonia Holdings (US) Inc. and its subsidiaries ("Pavonia") for total consideration of $120.0 million to Southland National Holdings, Inc. The transaction is expected to close in the third or fourth quarter of 2017. The closing of the transaction is subject to customary closing conditions, including regulatory approvals. The proceeds of the sale are expected to be used to pay down our revolving credit facility following closing.

Pavonia and Laguna comprise a substantial portion of the Life and Annuities segment. We have classified the assets and liabilities of the businesses to be sold as held-for-sale. Laguna was classified as held-for-sale as at June 30, 2017 with the prior balance sheet not being reclassified as Laguna did not qualify as a discontinued operation. The following table summarizes the components of assets and liabilities held-for-sale on our consolidated balance sheet as at June 30, 2017 and December 31, 2016 for Pavonia and as at June 30, 2017 for Laguna:

| | June 30, 2017 | | | December 31, 2016 |
|---|---|---|---|---|
| | Pavonia | Laguna | Total | Pavonia |
| Assets: | | | | |
| Short-term investments, trading, at fair value | $— | $4,153 | $4,153 | $— |
| Fixed maturities, trading, at fair value | 298,574 | 35,380 | 333,954 | 326,382 |
| Fixed maturities, held-to-maturity, at amortized cost | 755,381 | — | 755,381 | 765,554 |
| Equities, trading, at fair value | 4,833 | — | 4,833 | 4,428 |
| Other investments, at fair value | 15,385 | — | 15,385 | 15,114 |
| Cash and cash equivalents | 17,322 | 6,319 | 23,641 | 18,018 |
| Restricted cash and cash equivalents | 34,682 | — | 34,682 | 5,202 |
| Deferred tax assets | 31,500 | — | 31,500 | 31,500 |
| Reinsurance balances recoverable | 17,650 | 55 | 17,705 | 18,029 |
| Other assets | 50,406 | 725 | 51,131 | 60,229 |
| Assets of businesses held for sale | 1,225,733 | 46,632 | 1,272,365 | 1,244,456 |
| Less: Accrual of loss on sale | — | (9,609) | (9,609) | — |
| Total assets held for sale | $1,225,733 | $37,023 | $1,262,756 | $1,244,456 |
| | | | | |
| Liabilities: | | | | |
| Policy benefits for life and annuity contracts | $1,129,888 | $6,639 | $1,136,527 | $1,144,850 |
| Other liabilities | 4,867 | 1,166 | 6,033 | 5,937 |
| Total liabilities held for sale | $1,134,755 | $7,805 | $1,142,560 | $1,150,787 |

As of June 30, 2017 and December 31, 2016, included in the table above were restricted investments of $768.1 million and $786.0 million, respectively.

The cumulative currency translation adjustments ("CTA") balance in accumulated other comprehensive income (loss) ("AOCI"), a component of shareholders' equity, included $(13.5) million and $(14.8) million as at June 30, 2017 and December 31, 2016, respectively, related to Pavonia. Upon completion of the sale, the CTA will be included in earnings as a reduction of the gain on sale.

9

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Pavonia business qualifies as a discontinued operation. The following table summarizes the components of net earnings (losses) from discontinued operations on the consolidated statements of earnings for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| INCOME | | | | |
| Net premiums earned | $13,605 | $18,219 | $27,930 | $34,741 |
| Net investment income | 10,277 | 9,088 | 20,306 | 18,697 |
| Net realized and unrealized gains | 1,154 | 3,484 | 2,776 | 3,171 |
| Other income | 395 | 759 | 755 | 762 |
| | 25,431 | 31,550 | 51,767 | 57,371 |
| EXPENSES | | | | |
| Life and annuity policy benefits | 24,112 | 21,391 | 44,782 | 42,213 |
| Acquisition costs | 2,280 | 2,642 | 4,316 | 4,878 |
| General and administrative expenses | 3,718 | 4,713 | 6,775 | 7,128 |
| Other expenses | — | 3 | (16) | 6 |
| | 30,110 | 28,749 | 55,857 | 54,225 |
| EARNINGS (LOSSES) BEFORE INCOME TAXES | (4,679) | 2,801 | (4,090) | 3,146 |
| INCOME TAXES | (192) | (423) | (410) | (563) |
| NET EARNINGS (LOSSES) FROM DISCONTINUED OPERATIONS | $(4,871) | $2,378 | $(4,500) | $2,583 |

The net losses relating to Laguna for the three and six months ended June 30, 2017 were $0.9 million and $1.1 million, respectively. The net earnings relating to Laguna for the three and six months ended June 30, 2016 were $0.4 million and $0.5 million, respectively. These amounts were not significant to our consolidated operations and therefore we have not classified Laguna as a discontinued operation for current or prior periods. As at June 30, 2017 we have recorded a loss on the sale of Laguna of $9.6 million, which has been included in earnings from continuing operations before income taxes in our consolidated statement of earnings. The CTA balance for Laguna was a loss of $8.3 million as at June 30, 2017. Upon completion of the sale of Laguna, the CTA will be reclassified out of AOCI and included in earnings as a component of the loss on sale of Laguna.

The following table presents the cash flows of Pavonia for the six months ended June 30, 2017, and 2016:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Operating activities | $23,540 | $(32,295) |
| Investing activities | 5,244 | 40,495 |
| Change in cash and cash equivalents | $28,784 | $8,200 |

Table of Contents

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. INVESTMENTS

We hold: (i) trading portfolios of fixed maturity investments, short-term investments and equities, carried at fair value; (ii) available-for-sale portfolios of fixed maturity and short-term investments carried at fair value; and (iii) other investments carried at either fair value or cost.

Trading

The fair values of our fixed maturity investments, short-term investments and equities classified as trading were as follows:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| U.S. government and agency | $692,454 | $ 840,274 |
| Non-U.S. government | 832,839 | 267,363 |
| Corporate | 3,139,580 | 2,387,322 |
| Municipal | 88,722 | 47,181 |
| Residential mortgage-backed | 365,179 | 373,528 |
| Commercial mortgage-backed | 303,087 | 217,212 |
| Asset-backed | 549,832 | 478,280 |
| Total fixed maturity and short-term investments | 5,971,693 | 4,611,160 |
| Equities — U.S. | 106,240 | 95,047 |
| | $6,077,933 | $ 4,706,207 |

Included within residential and commercial mortgage-backed securities as at June 30, 2017 were securities issued by U.S. governmental agencies with a fair value of $248.3 million (as at December 31, 2016: $362.9 million). Included within corporate securities as at June 30, 2017 were senior secured loans of $57.0 million (as at December 31, 2016: $90.7 million).

The contractual maturities of our fixed maturity and short-term investments classified as trading are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| As at June 30, 2017 | Amortized Cost | Fair Value | % of Total Fair Value | |
|---|---|---|---|---|
| One year or less | $838,980 | $840,532 | 14.1 | % |
| More than one year through two years | 632,842 | 636,638 | 10.6 | % |
| More than two years through five years | 1,315,420 | 1,323,779 | 22.2 | % |
| More than five years through ten years | 1,121,737 | 1,139,373 | 19.1 | % |
| More than ten years | 781,744 | 813,273 | 13.6 | % |
| Residential mortgage-backed | 365,226 | 365,179 | 6.1 | % |
| Commercial mortgage-backed | 305,330 | 303,087 | 5.1 | % |
| Asset-backed | 541,584 | 549,832 | 9.2 | % |
| | $5,902,863 | $5,971,693 | 100.0 | % |

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Available-for-sale
The amortized cost and fair values of our fixed maturity and short-term investments classified as available-for-sale were as follows:

| As at June 30, 2017 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses Non-OTTI | Fair Value |
|---|---|---|---|---|
| U.S. government and agency | $ 4,208 | $ — | $ (19 ) | $ 4,189 |
| Non-U.S. government | 82,458 | 894 | (1,057 ) | 82,295 |
| Corporate | 132,314 | 1,632 | (1,445 ) | 132,501 |
| Municipal | 5,944 | 14 | (11 ) | 5,947 |
| Residential mortgage-backed | 41 | — | — | 41 |
| Asset-backed | 3,797 | 1 | — | 3,798 |
| | $ 228,762 | $ 2,541 | $ (2,532 ) | $ 228,771 |

| As at December 31, 2016 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses Non-OTTI | Fair Value |
|---|---|---|---|---|
| U.S. government and agency | $ 12,784 | $ 32 | $ (106 ) | $ 12,710 |
| Non-U.S. government | 86,897 | 1,303 | (2,777 ) | 85,423 |
| Corporate | 159,243 | 2,040 | (2,628 ) | 158,655 |
| Municipal | 6,585 | 12 | (21 ) | 6,576 |
| Residential mortgage-backed | 488 | 39 | — | 527 |
| Asset-backed | 3,867 | 9 | — | 3,876 |
| | $ 269,864 | $ 3,435 | $ (5,532 ) | $ 267,767 |

The contractual maturities of our fixed maturity and short-term investments classified as available-for-sale are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| As at June 30, 2017 | Amortized Cost | Fair Value | % of Total Fair Value |
|---|---|---|---|
| One year or less | $ 60,862 | $ 60,383 | 26.4 % |
| More than one year through two years | 30,313 | 29,616 | 12.9 % |
| More than two years through five years | 54,675 | 54,677 | 23.9 % |
| More than five years through ten years | 42,760 | 43,669 | 19.1 % |
| More than ten years | 36,314 | 36,587 | 16.0 % |
| Residential mortgage-backed | 41 | 41 | — % |
| Asset-backed | 3,797 | 3,798 | 1.7 % |
| | $ 228,762 | $ 228,771 | 100.0 % |

Gross Unrealized Losses

The following tables summarize our fixed maturity and short-term investments in a gross unrealized loss position:

| | 12 Months or Greater | | Less Than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| As at June 30, 2017 | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Fixed maturity and short-term investments, at fair value | | | | | | |
| U.S. government and agency | $— | $ — | $4,190 | $ (19) | $4,190 | $ (19) |
| Non-U.S. government | 6,330 | (727) | 24,596 | (330) | 30,926 | (1,057) |
| Corporate | 7,856 | (1,168) | 36,979 | (277) | 44,835 | (1,445) |
| Municipal | — | — | 2,711 | (11) | 2,711 | (11) |
| Total fixed maturity and short-term investments | $14,186 | $ (1,895) | $68,476 | $ (637) | $82,662 | $ (2,532) |

| | 12 Months or Greater | | Less Than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| As at December 31, 2016 | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Fixed maturity and short-term investments, at fair value | | | | | | |
| U.S. government and agency | $— | $ — | $10,743 | $ (106) | $10,743 | $ (106) |
| Non-U.S. government | 8,316 | (1,794) | 30,086 | (983) | 38,402 | (2,777) |
| Corporate | 8,003 | (1,800) | 42,304 | (828) | 50,307 | (2,628) |
| Municipal | — | — | 3,132 | (21) | 3,132 | (21) |
| Total fixed maturity and short-term investments | $16,319 | $ (3,594) | $86,265 | $ (1,938) | $102,584 | $ (5,532) |

As at June 30, 2017 and December 31, 2016, the number of securities classified as available-for-sale in an unrealized loss position was 105 and 156, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 35 and 41, respectively.

Other-Than-Temporary Impairment

For the six months ended June 30, 2017 and 2016, we did not recognize any other-than-temporary impairment losses on our available-for-sale securities. We determined that no credit losses existed as at June 30, 2017 and 2016. A description of our other-than-temporary impairment process is included in Note 2 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016. There were no changes to our process during the six months ended June 30, 2017.

Credit Ratings

The following table sets forth the credit ratings of our fixed maturity and short-term investments as of June 30, 2017:

| | Amortized Cost | Fair Value | % of Total Investments | AAA Rated | AA Rated | A Rated | BBB Rated | Non-Investment Grade | N |
|---|---|---|---|---|---|---|---|---|---|
| Fixed maturity and short-term investments, at fair value | | | | | | | | | |
| U.S. government and agency | $696,264 | $696,643 | 11.2 % | $694,993 | $1,650 | $— | $— | $— | $ |
| Non-U.S. government | 889,325 | 915,134 | 14.8 % | 103,509 | 721,105 | 68,785 | 20,825 | — | 9 |
| Corporate | 3,236,766 | 3,272,081 | 52.8 % | 181,948 | 430,591 | 1,628,525 | 916,671 | 113,010 | 1 |
| Municipal | 93,292 | 94,669 | 1.5 % | 27,067 | 52,969 | 13,175 | 1,458 | — | – |
| Residential mortgage-backed | 365,267 | 365,220 | 5.9 % | 257,904 | 20,365 | 6,948 | — | 78,503 | 1 |
| Commercial mortgage-backed | 305,330 | 303,087 | 4.9 % | 103,087 | 42,854 | 83,588 | 54,538 | 3,323 | 1. |
| Asset-backed | 545,381 | 553,630 | 8.9 % | 274,401 | 51,935 | 87,377 | 55,302 | 82,602 | 2 |
| Total | $6,131,625 | $6,200,464 | 100.0% | $1,642,909 | $1,321,469 | $1,888,398 | $1,048,794 | $277,438 | $ |
| % of total fair value | | | | 26.5 % | 21.3 % | 30.5 % | 16.9 % | 4.5 % | 0 |

Other Investments, at fair value

The following table summarizes our other investments carried at fair value:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Private equities and private equity funds | $269,016 | $ 300,529 |
| Fixed income funds | 249,573 | 249,023 |
| Fixed income hedge funds | 70,900 | 85,976 |
| Equity funds | 230,720 | 223,571 |
| CLO equities | 56,805 | 61,565 |
| CLO equity funds | 13,050 | 15,440 |
| Other | 879 | 943 |
| | $890,943 | $ 937,047 |

The valuation of our other investments is described in Note 6 - "Fair Value Measurements." Due to a lag in the valuations of certain funds reported by the managers, we may record changes in valuation with up to a three-month lag. We regularly review and discuss fund performance with the fund managers to corroborate the reasonableness of the reported net asset values and to assess whether any events have occurred within the lag period that would affect the valuation of the investments. The following is a description of the nature of each of these investment categories:

- Private equities and private equity funds invest primarily in the financial services industry. All of our investments in private equities and private equity funds are subject to restrictions on redemptions and sales that are determined by the governing documents and limit our ability to liquidate those investments. These restrictions have been in place since the dates of our initial investments.

- Fixed income funds comprise a number of positions in diversified fixed income funds that are managed by third-party managers. Underlying investments vary from high-grade corporate bonds to non-investment grade senior secured loans and bonds, but are generally invested in liquid fixed income markets. These funds have regularly published prices. The funds have liquidity terms that vary from daily up to quarterly.
- Fixed income hedge funds invest in a diversified portfolio of debt securities. The hedge funds have imposed lock-up periods of up to three years from the time of initial investment. Once eligible, redemptions are permitted quarterly with 90 days' notice.

- Equity funds invest in a diversified portfolio of international publicly traded equity securities. The funds have liquidity terms that vary from daily to every two weeks.
- CLO equities comprise investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. CLO equities denote direct investments by us in these securities.
- CLO equity funds comprise two funds that invest primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. One of the funds has a fair value of $1.4 million, part of a self-liquidating structure that is expected to pay out over one to five years. The other fund has a fair value of $11.6 million and is eligible for redemption in 2018.
- Other primarily comprises a fund that provides loans to educational institutions throughout the United States and its territories.

Investments of $0.4 million in fixed income hedge funds were subject to gates or side-pockets, where redemptions are subject to the sale of underlying investments. A gate is the ability to deny or delay a redemption request, whereas a side-pocket is a designated account for which the investor loses its redemption rights.

As at June 30, 2017, we had unfunded commitments to private equity funds of $183.7 million.

Other Investments, at cost

Our other investments carried at cost of $128.3 million as of June 30, 2017 consist of life settlement contracts. During the six months ended June 30, 2017 and 2016, net investment income included $9.3 million and $10.0 million, respectively, related to investments in life settlements. There were impairment charges of $6.3 million and $2.9 million recognized in net realized and unrealized gains/losses during the six months ended June 30, 2017 and 2016, respectively, related to investments in life settlements. The following table presents further information regarding our investments in life settlements as of June 30, 2017 and December 31, 2016.

| | June 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Number of Contracts | Carrying Value | Face Value (Death Benefits) | Number of Contracts | Carrying Value | Face Value (Death Benefits) |
| Remaining Life Expectancy of Insureds: | | | | | | |
| 0 – 1 year | 2 | $467 | $700 | 2 | $461 | $700 |
| 1 – 2 years | 8 | 12,025 | 20,075 | 7 | 11,396 | 18,337 |
| 2 – 3 years | 11 | 17,655 | 36,718 | 11 | 15,338 | 29,715 |
| 3 – 4 years | 17 | 13,369 | 24,507 | 17 | 17,013 | 32,189 |
| 4 – 5 years | 10 | 12,778 | 29,110 | 16 | 10,377 | 23,302 |
| Thereafter | 173 | 72,002 | 409,239 | 181 | 77,066 | 431,034 |
| Total | 221 | $128,296 | $520,349 | 234 | $131,651 | $535,277 |

Remaining life expectancy for year 0-1 in the table above references policies whose current life expectancy is less than 12 months as of the reporting date. Remaining life expectancy is not an indication of expected maturity. Actual maturity in any category above may vary significantly (either earlier or later) from the remaining life expectancies reported.

At June 30, 2017, our best estimate of the life insurance premiums required to keep the policies in force, payable in the 12 months ending June 30, 2018 and the four succeeding years ending June 30, 2022 is $17.9 million, $17.8 million, $17.7 million, $16.3 million and $15.7 million, respectively.

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net Realized and Unrealized Gains

Components of net realized and unrealized gains for the three and six months ended June 30, 2017 and 2016 were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net realized gains (losses) on sale: | | | | |
| Gross realized gains on fixed maturity securities, available-for-sale | $177 | $114 | $337 | $379 |
| Gross realized losses on fixed maturity securities, available-for-sale | (75) | (1) | (86) | (244) |
| Net realized gains (losses) on fixed maturity securities, trading | 65 | 1,490 | (987) | (416) |
| Net realized gains on equity securities, trading | 236 | 555 | 810 | 1,028 |
| Net realized investment losses on funds held - directly managed | (289) | — | (4,142) | — |
| Total net realized gains (losses) on sale | $114 | $2,158 | $(4,068) | $747 |
| Net unrealized gains: | | | | |
| Fixed maturity securities, trading | $11,226 | $37,871 | $34,542 | $81,067 |
| Equity securities, trading | 1,871 | 405 | 10,557 | 2,129 |
| Change in fair value of other investments | 19,696 | (5,931) | 43,205 | (11,163) |
| Change in fair value of embedded derivative on funds held - directly managed | 17,912 | — | 24,840 | — |
| Change in value of fair value option on funds held - directly managed | 1,058 | — | 1,320 | — |
| Total net unrealized gains | 51,763 | 32,345 | 114,464 | 72,033 |
| Net realized and unrealized gains | $51,877 | $34,503 | $110,396 | $72,780 |

The gross realized gains and losses on available-for-sale securities included in the table above resulted from sales of $12.3 million and $21.6 million for the three and six months ended June 30, 2017, respectively, and $18.2 million and $33.6 million for the three and six months ended June 30, 2016, respectively.

Net Investment Income

Major categories of net investment income for the three and six months ended June 30, 2017 and 2016 are summarized as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Fixed maturity investments | $33,741 | $30,888 | $64,071 | $58,086 |
| Short-term investments and cash and cash equivalents | 2,801 | 854 | 5,441 | 2,012 |
| Equity securities | 1,137 | 1,325 | 1,863 | 2,385 |
| Other investments | 3,387 | 5,693 | 6,896 | 11,727 |
| Funds held | 311 | 7,633 | 350 | 15,237 |
| Funds held - directly managed | 8,603 | — | 15,605 | — |
| Life settlements and other | 2,687 | 1,718 | 9,583 | 10,161 |
| Gross investment income | 52,667 | 48,111 | 103,809 | 99,608 |
| Investment expenses | (3,250) | (3,179) | (5,653) | (4,396) |
| Net investment income | $49,417 | $44,932 | $98,156 | $95,212 |

16

Restricted Assets

We are required to maintain investments and cash and cash equivalents on deposit to support our insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. We also utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trusts as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted assets, including restricted cash of $423.7 million and $363.8 million, as of June 30, 2017 and December 31, 2016, respectively, was as follows:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Collateral in trust for third party agreements | $3,357,930 | $ 1,975,022 |
| Assets on deposit with regulatory authorities | 765,581 | 882,400 |
| Collateral for secured letter of credit facilities | 175,355 | 177,263 |
| Funds at Lloyd's [1] | 224,364 | 220,328 |
| | $4,523,230 | $ 3,255,013 |

[1] Our underwriting businesses include three Lloyd's syndicates. Lloyd's determines the required capital principally through the annual business plan of each syndicate. This capital is referred to as "Funds at Lloyd's" and will be drawn upon in the event that a syndicate has a loss that cannot be funded from other sources. We have an unsecured letter of credit agreement for Funds at Lloyd’s purposes ("FAL Facility") to issue up to $140.0 million of letters of credit, with a provision to increase the facility up to $200.0 million. The FAL Facility is available to satisfy our Funds at Lloyd’s requirements and expires in 2021. As at June 30, 2017, our combined Funds at Lloyd's were comprised of cash and investments of $224.4 million and unsecured letters of credit of $122.0 million.

The increase in the collateral in trust for third-party agreements was primarily due to the loss portfolio transfer reinsurance transactions with RSA and QBE described in Note 2 - "Significant New Business".

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 5. FUNDS HELD - DIRECTLY MANAGED

Funds held - directly managed is comprised of the following:

- The funds held balance in relation to the Allianz transaction, described in Note 4 - "Significant New Business" in our consolidated financial statements in Form 10-K for the year ended December 31, 2016, moved from a fixed crediting rate to a variable rate of return on the underlying investments on October 1, 2016. This variable return reflects the economics of the investment portfolio underlying the funds held asset and qualifies as an embedded derivative. We have recorded the aggregate of the funds held, typically held at cost, and the embedded derivative as a single amount in our consolidated balance sheet. As at June 30, 2017 and December 31, 2016, the funds held at cost had a carrying value of $1,030.2 million and $1,023.0 million, respectively, and the embedded derivative had a fair value of $(3.5) million and $(28.3) million, respectively, the aggregate of which was $1,026.7 million and $994.7 million, respectively, as included in the table below.
- The fair value option was elected for the QBE reinsurance transaction described in Note 2 - "Significant New Business". As at June 30, 2017, the funds held had an amortized cost of $177.5 million and fair value of $178.9 million.

The following table presents the fair values of assets and liabilities underlying the funds held - directly managed account as at June 30, 2017 and December 31, 2016:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Fixed maturity investments: | | |
| U.S. government and agency | $52,548 | $ 47,885 |
| Non-U.S. government | 6,074 | 5,961 |
| Corporate | 778,757 | 663,556 |
| Municipal | 55,268 | 38,927 |
| Commercial mortgage-backed | 200,502 | 151,395 |
| Asset-backed | 96,395 | 79,806 |
| Total fixed maturity investments | $1,189,544 | $ 987,530 |
| Other assets | 16,048 | 7,135 |
| | $1,205,592 | $ 994,665 |

The contractual maturities of our fixed maturity investments underlying the funds held - directly managed account are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| As at June 30, 2017 | Amortized Cost | Fair Value | % of Total Fair Value |
|---|---|---|---|
| One year or less | $31,307 | $31,294 | 2.6 % |
| More than one year through two years | 30,705 | 30,741 | 2.6 % |
| More than two years through five years | 301,223 | 301,915 | 25.4 % |
| More than five years through ten years | 274,655 | 273,612 | 23.0 % |
| More than ten years | 252,411 | 255,085 | 21.4 % |
| Commercial mortgage-backed | 205,173 | 200,502 | 16.9 % |
| Asset-backed | 96,229 | 96,395 | 8.1 % |
| | $1,191,703 | $1,189,544 | 100.0 % |

Credit Ratings

The following table sets forth the credit ratings of our fixed maturity investments underlying the funds held - directly managed account as of June 30, 2017.

| | Amortized Cost | Fair Value | % of Total Investments | | AAA Rated | | AA Rated | | A Rated | | BBB Rated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| U.S. government and agency | $52,516 | $52,548 | 4.4 | % | $52,548 | | $— | | $— | | $— | |
| Non-U.S. government | 6,017 | 6,074 | 0.5 | % | — | | — | | 2,952 | | 3,122 | |
| Corporate | 776,928 | 778,757 | 65.5 | % | 7,492 | | 53,664 | | 330,984 | | 386,617 | |
| Municipal | 54,840 | 55,268 | 4.6 | % | — | | 19,212 | | 28,673 | | 7,383 | |
| Commercial mortgage-backed | 205,173 | 200,502 | 16.9 | % | 193,432 | | 5,060 | | 2,010 | | — | |
| Asset-backed | 96,229 | 96,395 | 8.1 | % | 92,663 | | 3,732 | | — | | — | |
| Total | $1,191,703 | $1,189,544 | 100.0 | % | $346,135 | | $81,668 | | $364,619 | | $397,122 | |
| % of total fair value | | | | | 29.0 | % | 6.9 | % | 30.7 | % | 33.4 | % |

Net Realized Gains and Change in Fair Value due to Embedded Derivative and Fair Value Option

Net realized gains and change in fair value for the three and six months ended June 30, 2017 are summarized as follows:

| | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2017 |
|---|---|---|
| Net realized losses on fixed maturity securities | $(289 ) | $(4,142 ) |
| Change in fair value of embedded derivative | 17,912 | 24,840 |
| Change in value of fair value option on funds held - directly managed | 1,058 | 1,320 |
| Net realized gains and change in fair value of funds held - directly managed | $18,681 | $22,018 |

There were no funds held - directly managed as at June 30, 2016.

Net Investment Income

Major categories of net investment income underlying the funds held - directly managed for the three and six months ended June 30, 2017 are summarized as follows:

| | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2017 |
|---|---|---|
| Fixed maturity investments | $8,817 | $16,302 |
| Short-term investments and cash and cash equivalents | 62 | 127 |
| Gross investment income | 8,879 | 16,429 |
| Investment expenses | (276 ) | (824 ) |
| Investment income on funds held - directly managed | $8,603 | $15,605 |

Table of Contents


## 6. FAIR VALUE MEASUREMENTS

### Fair Value Hierarchy

Fair value is defined as the price at which to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on unobservable inputs where there is little or no market activity. Unadjusted third party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

We have categorized our assets and liabilities that are recorded at fair value on a recurring basis among levels based on the observability of inputs as follows:

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| Investments: | June 30, 2017 Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| U.S. government and agency | $— | $ 696,643 | $ — | $696,643 |
| Non-U.S. government | — | 915,134 | — | 915,134 |
| Corporate | — | 3,217,725 | 54,356 | 3,272,081 |
| Municipal | — | 94,669 | — | 94,669 |
| Residential mortgage-backed | — | 364,527 | 693 | 365,220 |
| Commercial mortgage-backed | — | 280,222 | 22,865 | 303,087 |
| Asset-backed | — | 513,197 | 40,433 | 553,630 |
| Equities — U.S. | 102,884 | 3,356 | — | 106,240 |
| Other investments | — | 336,091 | 57,119 | 393,210 |
| Total investments | $102,884 | $ 6,421,564 | $ 175,466 | $6,699,914 |
| | | | | |
| Funds Held - Directly Managed: | | | | |
| U.S. government and agency | $— | $ 52,548 | $ — | $52,548 |
| Non-U.S. government | — | 6,074 | — | 6,074 |
| Corporate | — | 778,757 | — | 778,757 |
| Municipal | — | 55,268 | — | 55,268 |
| Commercial mortgage-backed | — | 200,502 | — | 200,502 |
| Asset-backed | — | 96,395 | — | 96,395 |
| Other funds held assets | — | 16,048 | — | 16,048 |
| | $— | $ 1,205,592 | $ — | $1,205,592 |
| | | | | |
| Reinsurance recoverable: | | | | |
| Reinsurance recoverable | $— | $ — | $ 554,759 | $554,759 |
| | $— | $ — | $ 554,759 | $554,759 |
| | | | | |
| Other Assets: | | | | |
| Derivative Instruments | $— | $ 49 | $ — | $49 |
| | $— | $ 49 | $ — | $49 |
| | | | | |
| Losses and LAE: | | | | |
| Losses and LAE | $— | $ — | $ 1,892,297 | $1,892,297 |
| | $— | $ — | $ 1,892,297 | $1,892,297 |
| | | | | |
| Other Liabilities: | | | | |
| Derivative Instruments | $— | $ 3,863 | $ — | $3,863 |
| | $— | $ 3,863 | $ — | $3,863 |

21

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | December 31, 2016 | | | |
|---|---|---|---|---|
| Investments: | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
| U.S. government and agency | $— | $ 852,984 | $ — | $852,984 |
| Non-U.S. government | — | 352,786 | — | 352,786 |
| Corporate | — | 2,471,444 | 74,534 | 2,545,978 |
| Municipal | — | 53,757 | — | 53,757 |
| Residential mortgage-backed | — | 374,055 | — | 374,055 |
| Commercial mortgage-backed | — | 204,999 | 12,213 | 217,212 |
| Asset-backed | — | 467,463 | 14,692 | 482,155 |
| Equities — U.S. | 91,287 | 3,760 | — | 95,047 |
| Other investments | — | 357,438 | 76,878 | 434,316 |
| Total investments | $91,287 | $ 5,138,686 | $ 178,317 | $5,408,290 |
| | | | | |
| Funds Held - Directly Managed: | | | | |
| U.S. government and agency | $— | $ 47,885 | $ — | $47,885 |
| Non-U.S. government | — | 5,961 | — | 5,961 |
| Corporate | — | 663,556 | — | 663,556 |
| Residential mortgage-backed | — | 38,927 | — | 38,927 |
| Commercial mortgage-backed | — | 151,395 | — | 151,395 |
| Asset-backed | — | 79,806 | — | 79,806 |
| Other funds held assets | — | 7,135 | — | 7,135 |
| | $— | $ 994,665 | $ — | $994,665 |
| | | | | |
| Other Assets: | | | | |
| Derivative Instruments | $— | $ 2,930 | $ — | $2,930 |
| | $— | $ 2,930 | $ — | $2,930 |
| | | | | |
| Other Liabilities: | | | | |
| Derivative Instruments | $— | $ 74 | $ — | $74 |
| | $— | $ 74 | $ — | $74 |

Certain of our other investments are measured at fair value using NAV per share (or its equivalent) as a practical expedient and have not been classified within the fair value hierarchy above. The following table reconciles our other investments in the tables above with the amounts presented on our consolidated balance sheets:

| Other investments: | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Other investments measured at fair value | $393,210 | $ 434,316 |
| Other investments measured at NAV as practical expedient | 497,733 | 502,731 |
| Total other investments shown on balance sheets | $890,943 | $ 937,047 |

Valuation Methodologies of Financial Instruments Measured at Fair Value
Fixed Maturity Investments
The fair values for all securities in the fixed maturity investments and funds held - directly managed portfolios are independently provided by the investment accounting service providers, investment managers and investment custodians, each of which utilize internationally recognized independent pricing services. We record the unadjusted price provided by the investment accounting service providers, investment managers or investment custodians and validate this price through a process that includes, but is not limited to: (i) comparison of prices against alternative pricing sources; (ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark); (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and (iv) comparing the price to our knowledge of the current investment market. Our internal price validation procedures and review of fair value methodology documentation provided by independent pricing services have not historically resulted in adjustment in the prices obtained from the pricing service.
The independent pricing services used by the investment accounting service providers, investment managers and investment custodians obtain actual transaction prices for securities that have quoted prices in active markets. Where we utilize single unadjusted broker-dealer quotes, they are generally provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation models, using observable data, such as an Option Adjusted Spread model, to develop prepayment and interest rate scenarios. The Option Adjusted Spread model is commonly used to estimate fair value for securities such as mortgage-backed and asset-backed securities.
The following describes the techniques generally used to determine the fair value of our fixed maturity investments by asset class, including the investments underlying the funds held - directly managed.

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified as Level 2.
- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2. Where pricing is unavailable from pricing services, such as in periods of low trading activity or when transactions are not orderly, we obtain non-binding quotes from broker-dealers. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.
- Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2.
- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. Residential and commercial mortgage-backed securities include both agency and non-agency

originated securities. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, prepayment speeds and default rates. The fair values of these securities are classified as Level 2 if the significant inputs are market observable. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

Equities

Our investments in equities are predominantly traded on the major exchanges and are primarily managed by our external advisors. We use an internationally recognized pricing service to estimate the fair value of our equities. Our equities are widely diversified and there is no significant concentration in any specific industry.

We have categorized all of our investments in equities other than preferred stock as Level 1 investments because the fair values of these investments are based on unadjusted quoted prices in active markets for identical assets or liabilities. The fair value estimates of our investments in preferred stock are based on observable market data and, as a result, have been categorized as Level 2.

Other investments, at fair value

We have ongoing due diligence processes with respect to the other investments carried at fair value in which we invest and their managers. These processes are designed to assist us in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, we obtain the audited financial statements for funds annually, and regularly review and discuss the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values ("NAV").

The use of NAV as an estimate of the fair value for investments in certain entities that calculate NAV is a permitted practical expedient. Due to the time lag in the NAV reported by certain fund managers we adjust the valuation for capital calls and distributions. Other investments measured at fair value using NAV as a practical expedient have not been classified in the fair value hierarchy. Other investments for which we do not use NAV as a practical expedient have been valued using prices from independent pricing services, investment managers and broker-dealers.

The following describes the techniques generally used to determine the fair value of our other investments.

- For our investments in private equities and private equity funds, we measure fair value by obtaining the most recently available NAV from the external fund manager or third-party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- Our investments in fixed income funds and equity funds are valued based on a combination of prices from independent pricing services, external fund managers or third-party administrators. For the publicly available prices we have classified the investments as Level 2. For the non-publicly available prices we are using NAV as a practical expedient and therefore these have not been categorized within the fair value hierarchy.
- For our investments in fixed income hedge funds, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third-party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.
- We measure the fair value of our direct investment in CLO equities based on valuations provided by our external CLO equity manager. If the investment does not involve an external CLO equity manager, the fair value of the investment is valued based on valuations provided by the broker or lead underwriter of the investment (the "broker"). Our CLO equity investments have been classified as Level 3 due to the use of unobservable inputs in the valuation and the limited number of relevant trades in secondary markets.

In providing valuations, the CLO equity manager and brokers use observable and unobservable inputs. Of the significant unobservable market inputs used, the default and loss severity rates involve the most judgment and create the most sensitivity. A significant increase or decrease in either of these significant inputs in isolation would result in lower or higher fair value estimates for direct investments in CLO equities and, in general, a change in default rate assumptions will be accompanied by a directionally similar change in loss severity rate assumptions. Collateral spreads and estimated maturity dates are less subjective inputs because they are based on the historical average of actual spreads and the weighted-average life of the current underlying portfolios, respectively. A significant increase or decrease in either of these significant inputs in isolation would result in higher or lower fair value estimates for direct investments in CLO equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

On a quarterly basis, we receive the valuation from the external CLO manager and brokers and then review the underlying cash flows and key assumptions used by them. We review and update the significant unobservable inputs based on information obtained from secondary markets. These inputs are our responsibility and we assess the reasonableness of the inputs (and if necessary, update the inputs) through communicating with industry participants, monitoring of the transactions in which we participate (for example, to evaluate default and loss severity rate trends), and reviewing market conditions, historical results, and emerging trends that may impact future cash flows.

If valuations from the external CLO equity manager or brokers are not available, we use an income approach based on certain observable and unobservable inputs to value these investments. An income approach is also used to corroborate the reasonableness of the valuations provided by the external manager and brokers. Where an income approach is followed, the valuation is based on available trade information, such as expected cash flows and market assumptions on default and loss severity rates. Other inputs used in the valuation process include asset spreads, loan prepayment speeds, collateral spreads and estimated maturity dates.

For our investments in CLO equity funds, we measure fair value by obtaining the most recently available NAV as advised by the external fund manager or third party administrator. The fair values of these investments are measured using the NAV as a practical expedient and therefore have not been categorized within the fair value hierarchy.

Insurance Contracts - Fair Value Option

The Company uses an internal model to calculate the fair value of the liability for losses and loss adjustment expenses and reinsurance recoverable asset for certain retroactive reinsurance contracts where we have elected the fair value option in our Non-life Run-off segment. The fair value was calculated as the aggregate of discounted cash flows plus a risk margin. The discounted cash flow approach uses (i) estimated nominal cash flows based upon an appropriate payment pattern developed in accordance with standard actuarial techniques and (ii) a discount rate based upon a high quality rated corporate bond plus a credit spread for non-performance risk. The model uses corporate bond rates across the yield curve depending on the estimated timing of the future cash flows and specific to the currency of the risk. The risk margin was calculated using the present value of the cost of capital. The cost of capital approach uses (i) projected capital requirements, (ii) multiplied by the risk cost of capital representing the return required for non-hedgeable risk based upon the weighted average cost of capital less investment income, and (iii) discounted using the weighted average cost of capital.

Level 3 Measurements and Changes in Leveling

Transfers into or out of levels are recorded at their fair values as of the end of the reporting period, consistent with the date of determination of fair value.

Investments

During the six months ended June 30, 2017, we transferred $5.0 million of corporate securities, $17.9 million of commercial mortgage-backed securities and $49.4 million of asset-backed securities from Level 2 to Level 3. These securities were transferred from Level 2 to Level 3 due to insufficient market observable inputs for the valuation of the specific assets. During the six months ended June 30, 2017, we transferred $16.3 million of corporate securities, $17.3 million of commercial mortgage-backed securities and $17.8 million of asset-backed securities from Level 3 to Level 2. The transfers from Level 3 to Level 2 were based upon us obtaining market observable information regarding the valuations of the specific assets. During the six months ended June 30, 2017, an equity method investment of $12.4 million was reclassified from other investments to other assets resulting in a transfer out of Level 3. There were no transfers between Levels 1 and 2.

Table of Contents

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, 2017 | | | Three Months Ended June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Fixed Maturity Investments | Other Investments | Total | Fixed Maturity Investments | Other Investments | Total |
| Beginning fair value | $110,113 | $ 69,627 | $179,740 | $82,612 | $ 74,289 | $156,901 |
| Purchases | 17,737 | 292 | 18,029 | 15,772 | 664 | 16,436 |
| Sales | (14,318 ) | — | (14,318 ) | (11,721 ) | — | (11,721 ) |
| Net realized and unrealized gains (losses) | 542 | (450 ) | 92 | 991 | 5,517 | 6,508 |
| Net transfers into (out of) Level 3 | 4,273 | (12,350 ) | (8,077 ) | 24,718 | — | 24,718 |
| Ending fair value | $118,347 | $ 57,119 | $175,466 | $112,372 | $ 80,470 | $192,842 |

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the six months ended June 30, 2017 and 2016:

| | Six Months Ended June 30, 2017 | | | Six Months Ended June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Fixed Maturity Investments | Other Investments | Total | Fixed Maturity Investments | Other Investments | Total |
| Beginning fair value | $101,439 | $ 76,878 | $178,317 | $147,144 | $ 77,016 | $224,160 |
| Purchases | 28,006 | 292 | 28,298 | 15,772 | 6,885 | 22,657 |
| Sales | (33,217 ) | — | (33,217 ) | (29,057 ) | (4,658 ) | (33,715 ) |
| Net realized and unrealized gains (losses) | 1,177 | (7,701 ) | (6,524 ) | (4,601 ) | 1,227 | (3,374 ) |
| Net transfers into (out of) Level 3 | 20,942 | (12,350 ) | 8,592 | (16,886 ) | — | (16,886 ) |
| Ending fair value | $118,347 | $ 57,119 | $175,466 | $112,372 | $ 80,470 | $192,842 |

Net realized and unrealized gains (losses) related to Level 3 assets in the table above are included in net realized and unrealized gains (losses) in our unaudited condensed consolidated statements of earnings.

Insurance Contracts - Fair Value Option

The following table presents a reconciliation of the beginning and ending balances for all insurance contracts measured at fair value on a recurring basis using Level 3 inputs during the three and six months ended June 30, 2017:

| | Three Months Ended June 30, 2017 | | Six Months Ended June 30, 2017 | |
|---|---|---|---|---|
| | Liability for losses and LAE | Reinsurance recoverable | Liability for losses and LAE | Reinsurance recoverable |
| Beginning fair value | $1,924,829 | $551,253 | $— | $— |
| Assumed business | — | — | 1,966,843 | 565,824 |
| Changes in nominal amounts: | | | | |
| Net incurred losses and LAE | (26,407 ) | (2,095 ) | (32,645 ) | (2,095 ) |
| Paid losses | (39,686 ) | (4,488 ) | (100,053 ) | (21,494 ) |
| Changes in fair value: | | | | |
| Discounted cash flows | (3,046 ) | 5,946 | 16,989 | 8,413 |
| Risk margin | (4,562 ) | (632 ) | (9,052 ) | (1,702 ) |
| Effect of exchange rate movement | 41,169 | 4,775 | 50,215 | 5,813 |
| Ending fair value | $1,892,297 | $554,759 | $1,892,297 | $554,759 |

Changes in fair value related to Level 3 assets and liabilities in the table above are included in net incurred losses and LAE in our unaudited condensed consolidated statements of earnings.

Below is a summary of the quantitative information regarding the significant observable and unobservable inputs used in the internal model to determine fair value on a recurring basis as at June 30, 2017:

| June 30, 2017 | | |
|---|---|---|
| Valuation Technique | Unobservable (U) and Observable (O) Inputs | Weighted Average |
| Internal model | Corporate bond yield (O) | A rated |
| Internal model | Credit spread for non-performance risk (U) | 0.2% |
| Internal model | Risk cost of capital (U) | 5.0% |
| Internal model | Weighted average cost of capital (U) | 8.5% |
| Internal model | Duration - liability (U) | 11.39 years |
| Internal model | Duration - reinsurance recoverable (U) | 12.10 years |

The fair value of the liability for losses and LAE and reinsurance recoverable may increase or decrease due to changes in the corporate bond rate, the credit spread for non-performance risk, the risk cost of capital, the weighted average cost of capital and the estimated payment pattern:

- An increase in the corporate bond rate or credit spread for non-performance risk would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable. Conversely, a decrease in the corporate bond rate or credit spread for non-performance risk would result in an increase in the fair value of the liability for losses and LAE and reinsurance recoverable.
- An increase in the weighted average cost of capital would result in an increase in the fair value of the liability for losses and LAE and reinsurance recoverable. Conversely, a decrease in the weighted average cost of capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable.
- An increase in the risk cost of capital would result in an increase in the fair value of the liability for losses and LAE and reinsurance recoverable. Conversely, a decrease in the risk cost of capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable.
- An acceleration of the estimated payment pattern would result in an increase in the fair value of the liability for losses and LAE and reinsurance recoverable. Conversely, a deceleration of the estimated payment pattern would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable.

In addition, the estimate of the capital required to support the liabilities is based upon current industry standards for capital adequacy. If the required capital per unit of risk increases then the fair value of the liability for losses and LAE and reinsurance recoverable would increase. Conversely, a decrease in required capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable.

Disclosure of Fair Values for Financial Instruments Carried at Cost

As of June 30, 2017 and December 31, 2016, investments in life settlement contracts were carried at cost of $128.3 million and $131.7 million, respectively, and their fair values were $127.8 million and $129.5 million, respectively. The fair value of investments in life settlement contracts is determined using a discounted cash flow methodology that utilizes unobservable inputs. Due to the individual nature of each investment in life settlement contracts and the illiquidity of the existing market, significant inputs to the fair value include our estimates of premiums necessary to keep the policies in-force, and our assumptions for mortality and discount rates. Our mortality assumptions are based on a combination of medical underwriting information obtained from a third-party underwriter for each referenced life and internal proprietary mortality studies of older aged U.S. insured lives. These assumptions are used to develop an estimate of future net cash flows that, after discounting, are intended to be reflective of the asset's value in the life settlement market.

As of June 30, 2017, our 4.5% Senior Notes due 2022 were carried at amortized cost of $347.2 million while the fair value based on observable market pricing from a third party pricing service was $359.7 million. The fair value is classified as Level 2.

Table of Contents


Disclosure of the fair value of amounts relating to insurance contracts is not required, except for those for which we elected the fair value option, as described above. Our remaining assets and liabilities that are carried at cost or amortized cost have approximately the same fair value as at June 30, 2017 and December 31, 2016 due to their short-term nature.

7. DERIVATIVE INSTRUMENTS

Foreign Currency Hedging of Net Investments

We use foreign currency forward exchange rate contracts in qualifying hedging relationships to hedge the foreign currency exchange rate risk associated with certain of our net investments in foreign operations. At June 30, 2017 and December 31, 2016, we had forward currency contracts in place, which we had designated as hedges of the net investments in our foreign operations.

The following tables present the gross notional amounts, estimated fair values recorded within other assets and liabilities and the amounts of the net gains and losses deferred in the currency translation adjustment account which is a component of accumulated other comprehensive income (loss) ("AOCI"), in shareholders' equity, related to our foreign currency forward exchange rate contracts as at June 30, 2017 and December 31, 2016.

| | | June 30, 2017 Fair Value | | Losses Deferred in AOCI (Effective Portion) | |
|---|---|---|---|---|---|
| | Gross Notional Amount | Assets | Liabilities | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2017 |
| Foreign exchange forward - AUD | $ 57,585 | $ — | $ 2,136 | $ (1,007) | $ (562) |
| Foreign exchange forward - CAD | 28,481 | 20 | 1,509 | (668) | (116) |
| Total qualifying hedges | $ 86,066 | $ 20 | $ 3,645 | $ (1,675) | $ (678) |

| | | December 31, 2016 Fair Value | | Gains Deferred in AOCI (Effective Portion) |
|---|---|---|---|---|
| | Gross Notional Amount | Assets | Liabilities | Year Ended December 31, 2016 |
| Foreign exchange forward - AUD | 45,467 | 2,753 | 74 | 2,568 |
| Foreign exchange forward - CAD | 37,175 | 177 | — | 1,186 |
| Total qualifying hedges | $ 82,642 | $ 2,930 | $ 74 | $ 3,754 |

We did not have any forward currency contract hedges of our net investments in foreign operations during the three and six months ended June 30, 2016.

Since the second quarter of 2016, we have maintained borrowings of €75.0 million (approximately $85.6 million as at June 30, 2017) that was designated as a non-derivative hedge of our net investment in certain subsidiaries whose functional currency is denominated in Euros as described in Note 13 - "Debt Obligations".

Derivatives Not Designated or Not Qualifying as Hedging Instruments

From time to time, we may also utilize foreign currency forward contracts as part of our overall foreign currency risk management strategy or to obtain exposure to a particular financial market, as well as for yield enhancement, which are not designated or do not qualify as hedging instruments. We may also utilize equity call option instruments either to obtain exposure to a particular equity instrument or for yield enhancement in non-qualifying hedging relationships.

Foreign Currency Forward Contracts

The following table presents the gross notional amounts, estimated fair values recorded within other assets and other liabilities and the amounts included in net earnings related to our non-qualifying foreign currency forward exchange rate hedging relationships as at June 30, 2017. Our non-qualifying Euro foreign currency forward exchange rate contract expired during the three months ended June 30, 2017 and was not renewed.

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | | June 30, 2017 Fair Value | | Losses on non-qualifying hedges charged to earnings | |
|---|---|---|---|---|---|
| | Gross Notional Amount | Assets | Liabilities | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2017 |
| Foreign exchange forward - GBP | $22,114 | $29 | $ 218 | $(611) | $(740) |
| Foreign exchange forward - EUR | — | — | — | (354) | (563) |
| Total non-qualifying hedges | $22,114 | $29 | $ 218 | $(965) | $(1,303) |

We did not utilize any non-qualifying foreign currency forward contracts during the three and six months ended June 30, 2016, and there were no such contracts in effect as at December 31, 2016.

Investments in Call Options on Equities

During the three and six months ended June 30, 2016, we purchased call options on equities at a cost of $5.5 million and recorded unrealized losses in net earnings of $1.2 million and $0.6 million, respectively. We did not have any equity derivative instruments during the three and six months ended June 30, 2017.

8. REINSURANCE BALANCES RECOVERABLE

The following tables provide the total reinsurance balances recoverable by segment as at June 30, 2017 and December 31, 2016:

| | June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Total |
| Recoverable from reinsurers on unpaid: | | | | | |
| Outstanding losses | $996,492 | $6,679 | $181,153 | $ 191 | $1,184,515 |
| IBNR | 667,362 | 21,430 | 215,168 | — | 903,960 |
| Fair value adjustments | (14,998) | 1,640 | (2,665) | — | (16,023) |
| Fair value adjustments - fair value option | (148,299) | — | — | — | (148,299) |
| Total reinsurance reserves recoverable | 1,500,557 | 29,749 | 393,656 | 191 | 1,924,153 |
| Paid losses recoverable | 90,262 | 1,121 | 16,601 | 55 | 108,039 |
| | $1,590,819 | $30,870 | $410,257 | $ 246 | $2,032,192 |
| Reconciliation to Consolidated Balance Sheet: | | | | | |
| Reinsurance balances recoverable | $1,036,060 | $30,870 | $410,257 | $ 246 | $1,477,433 |
| Reinsurance balances recoverable - fair value option | 554,759 | — | — | — | 554,759 |
| Total | $1,590,819 | $30,870 | $410,257 | $ 246 | $2,032,192 |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Total |
| Recoverable from reinsurers on unpaid: | | | | | |
| Outstanding losses | $621,288 | $6,438 | $182,478 | $ 190 | $810,394 |
| IBNR | 393,550 | 21,753 | 178,259 | — | 593,562 |

| | | | | | |
|---|---|---|---|---|---|
| Fair value adjustments | (13,885) | 1,818 | (3,506) | — | (15,573) |
| Fair value adjustments - fair value option | — | — | — | — | — |
| Total reinsurance reserves recoverable | 1,000,953 | 30,009 | 357,231 | 190 | 1,388,383 |
| Paid losses recoverable | 47,160 | (1,081) | 25,512 | 769 | 72,360 |
| | $1,048,113 | $28,928 | $382,743 | $ 959 | $1,460,743 |
| Reconciliation to Consolidated Balance Sheet: | | | | | |
| Reinsurance balances recoverable | $1,048,113 | $28,928 | $382,743 | $ 959 | $1,460,743 |
| Reinsurance balances recoverable - fair value option | — | — | — | — | — |
| Total | $1,048,113 | $28,928 | $382,743 | $ 959 | $1,460,743 |

30

Our insurance and reinsurance run-off subsidiaries, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed. On an annual basis, both Atrium and StarStone purchase a tailored outwards reinsurance program designed to manage their risk profiles. The majority of Atrium’s and StarStone's third-party reinsurance cover is with highly rated reinsurers or is collateralized by pledged assets or letters of credit.
The fair value adjustments, determined on acquisition of insurance and reinsurance subsidiaries, are based on the estimated timing of loss and LAE recoveries and an assumed interest rate equivalent to a risk free rate for securities with similar duration to the acquired reinsurance recoverables plus a spread for credit risk, and are amortized over the estimated recovery period, as adjusted for accelerations in timing of payments as a result of commutation settlements. The determination of the fair value adjustments on the retroactive reinsurance contracts for which we have elected the fair value option is described in Note 6 - "Fair Value Measurements".
As of June 30, 2017 and December 31, 2016, we had reinsurance balances recoverable of approximately $2.0 billion and $1.5 billion, respectively. The increase of $571.4 million in reinsurance balances recoverable was primarily a result of the QBE and RSA reinsurance transactions, which closed in the first quarter of 2017, partially offset by reserve reductions in our Non-life Run-off segment and cash collections made during the six months ended June 30, 2017.

Top Ten Reinsurers

| | June 30, 2017 | | | | | | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Total | % of Total | Non-life Run-off | Atrium | StarStone | Life and Annuities | Total | % o Tota |
| Top ten reinsurers | $1,239,701 | $18,501 | $245,925 | $— | $1,504,127 | 74.0 % | $737,074 | $23,245 | $226,283 | $— | $986,602 | 67.6 |
| Other reinsurers > $1 million | 337,790 | 11,693 | 159,366 | — | 508,849 | 25.0 % | 301,856 | 4,827 | 152,341 | — | 459,024 | 31.4 |
| Other reinsurers < $1 million | 13,328 | 676 | 4,966 | 246 | 19,216 | 1.0 % | 9,183 | 856 | 4,119 | 959 | 15,117 | 1.0 |
| Total | $1,590,819 | $30,870 | $410,257 | $246 | $2,032,192 | 100.0% | $1,048,113 | $28,928 | $382,743 | $959 | $1,460,743 | 100. |

Five of the top ten external reinsurers, as at June 30, 2017 and December 31, 2016, were rated A- or better, with the remaining five being non-rated reinsurers from which $645.0 million was recoverable (December 31, 2016: $512.2 million recoverable from four reinsurers). For the five non-rated reinsurers, including KaylaRe Ltd., we hold security in the form of pledged assets in trust or letters of credit issued to us in the full amount of the recoverable. As at June 30, 2017, reinsurance balances recoverable of $288.2 million (December 31, 2016: $241.7 million) related to KaylaRe Ltd., $206.9 million (December 31, 2016: $154.9 million) related to Lloyd’s syndicates and $328.9 million (December 31, 2016: $67.3 million) related to Hannover Ruck SE, all of which represented 10% or more of total reinsurance balances recoverable. Lloyd’s is rated A+ by Standard & Poor’s and A by A.M. Best, and Hannover Ruck SE is rated AA- by Standard & Poor’s and A+ by A.M. Best.

Provisions for Uncollectible Reinsurance Recoverables

We remain liable to the extent that retrocessionaires do not meet their obligations under these agreements, and therefore, we evaluate and monitor concentration of credit risk among our reinsurers. Provisions are made for amounts considered potentially uncollectible.

The following table shows our reinsurance balances recoverable by rating of reinsurer and our provisions for uncollectible reinsurance balances recoverable ("provisions for bad debt") as at June 30, 2017 and December 31, 2016. The provisions for bad debt all relate to the Non-life Run-off segment.

| | June 30, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross | Provisions for Bad Debt | Net | Provisions as a % of Gross | Gross | Provisions for Bad Debt | Net | Provisions as a % of Gross |
| Reinsurers rated A- or above | $1,340,499 | $52,072 | $1,288,427 | 3.9 % | $892,776 | $35,184 | $857,592 | 3.9 % |
| Reinsurers rated below A-, secured | 690,748 | — | 690,748 | — % | 544,894 | — | 544,894 | — % |
| Reinsurers rated below A-, unsecured | 178,479 | 125,462 | 53,017 | 70.3 % | 197,589 | 139,332 | 58,257 | 70.5 % |
| Total | $2,209,726 | $177,534 | $2,032,192 | 8.0 % | $1,635,259 | $174,516 | $1,460,743 | 10.7 % |

31

## 9. LOSSES AND LOSS ADJUSTMENT EXPENSES

The liability for losses and loss adjustment expenses ("LAE") includes an amount determined from reported claims and an amount based on historical loss experience and industry statistics for incurred but not reported ("IBNR") using a variety of actuarial methods. Our loss reserves cover multiple lines of business, which include workers' compensation, general casualty, asbestos and environmental, marine, aviation and transit, construction defects and other non-life lines of business. Refer to Note 11 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 for more information on establishing the liability for losses and LAE.

The following table summarizes the liability for losses and LAE by segment as at June 30, 2017 and December 31, 2016:

| | June 30, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Total | Non-life Run-off | Atrium | StarStone | Total |
| Outstanding losses | $3,366,255 | $68,035 | $519,783 | $3,954,073 | $2,697,737 | $67,379 | $502,115 | $3,267,231 |
| IBNR | 3,439,545 | 129,384 | 596,332 | 4,165,261 | 2,153,994 | 132,240 | 558,130 | 2,844,364 |
| Fair value adjustments | (134,839) | 11,227 | (656) | (124,268) | (135,368) | 12,503 | (863) | (123,728) |
| Fair value adjustments - fair value option | (353,682) | — | — | (353,682) | — | — | — | — |
| Total | $6,317,279 | $208,646 | $1,115,459 | $7,641,384 | $4,716,363 | $212,122 | $1,059,382 | $5,987,867 |

| Reconciliation to Consolidated Balance Sheet: | |
|---|---|
| Loss and loss adjustment expenses | $5,749,087 |
| Loss and loss adjustment expenses, at fair value | 1,892,297 |
| Total | $7,641,384 |

The overall increase in the liability for losses and LAE between December 31, 2016 and June 30, 2017 was primarily attributable to the assumed reinsurance agreements with RSA and QBE in our Non-life Run-off segment, for which we have elected the fair value option, as described in Note 2 - "Significant New Business."

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance as at beginning of period | $7,760,587 | $6,641,507 | $5,987,867 | $5,720,149 |
| Less: reinsurance reserves recoverable | 1,895,491 | 1,302,738 | 1,388,193 | 1,360,382 |
| Less: deferred charges on retroactive reinsurance | 93,605 | 254,300 | 94,551 | 255,911 |
| Net balance as at beginning of period | 5,771,491 | 5,084,469 | 4,505,123 | 4,103,856 |
| Net incurred losses and LAE: | | | | |
| Current period | 81,400 | 126,634 | 166,945 | 241,936 |
| Prior periods | (71,780) | (30,172) | (79,433) | (62,256) |
| Total net incurred losses and LAE | 9,620 | 96,462 | 87,512 | 179,680 |
| Net paid losses: | | | | |
| Current period | (16,173) | (17,022) | (24,892) | (22,356) |
| Prior periods | (205,222) | (203,010) | (454,944) | (389,413) |
| Total net paid losses | (221,395) | (220,032) | (479,836) | (411,769) |
| Effect of exchange rate movement | 69,231 | (28,127) | 83,736 | (23,246) |
| Acquired on purchase of subsidiaries | — | 10,019 | — | 10,019 |
| Assumed business | — | — | 1,432,412 | 1,084,251 |
| Net balance as at June 30 | 5,628,947 | 4,942,791 | 5,628,947 | 4,942,791 |
| Plus: reinsurance reserves recoverable | 1,923,962 | 1,243,782 | 1,923,962 | 1,243,782 |
| Plus: deferred charges on retroactive reinsurance | 88,475 | 247,272 | 88,475 | 247,272 |
| Balance as at June 30 | $7,641,384 | $6,433,845 | $7,641,384 | $6,433,845 |

The tables below provide the net incurred losses and LAE in the Non-life Run-off, Atrium and StarStone segments for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, 2017 | | | | Three Months Ended June 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Total | Non-life Run-off | Atrium | StarStone | Total |
| Net losses paid | $144,412 | $12,821 | $64,162 | $221,395 | $143,056 | $12,523 | $64,453 | $220,032 |
| Net change in case and LAE reserves | (127,409) | (1,121) | 8,145 | (120,385) | (74,560) | 2,035 | 21,736 | (50,789) |
| Net change in IBNR reserves | (62,311) | (3,542) | (6,650) | (72,503) | (102,836) | 3,538 | 17,285 | (82,013) |
| Amortization of deferred charges | 5,130 | — | — | 5,130 | 5,734 | — | — | 5,734 |
| Increase (reduction) in estimates of net ultimate losses | (40,178) | 8,158 | 65,657 | 33,637 | (28,606) | 18,096 | 103,474 | 92,964 |
| Reduction in provisions for bad debt | (735) | — | — | (735) | (5,184) | — | — | (5,184) |
| Increase (reduction) in provisions for unallocated | (10,935) | (56) | 287 | (10,704) | (6,571) | 50 | 758 | (5,763) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| LAE | | | | | | | | |
| Amortization of fair value adjustments | 678 | 87 | (111 ) | 654 | 15,671 | (1,013 ) | (213 ) | 14,445 |
| Changes in fair value - fair value option | (13,232) | — | — | (13,232) | — | — | — | — |
| Net incurred losses and LAE | $(64,402 ) | $8,189 | $65,833 | $9,620 | $(24,690 ) | $17,133 | $104,019 | $96,462 |

33

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | Six Months Ended June 30, 2017 | | | | Six Months Ended June 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Total | Non-life Run-off | Atrium | StarStone | Total |
| Net losses paid | $300,984 | $26,494 | $152,358 | $479,836 | $275,369 | $20,271 | $116,129 | $411,769 |
| Net change in case and LAE reserves | (210,543) | (527) | (1,214) | (212,284) | (183,345) | 263 | 34,391 | (148,691) |
| Net change in IBNR reserves | (140,958) | (5,346) | (16,802) | (163,106) | (139,899) | 13,429 | 44,372 | (82,098) |
| Amortization of deferred charges | 6,076 | — | — | 6,076 | 7,345 | — | — | 7,345 |
| Increase (reduction) in estimates of net ultimate losses | (44,441) | 20,621 | 134,342 | 110,522 | (40,530) | 33,963 | 194,892 | 188,325 |
| Reduction in provisions for bad debt | (735) | — | — | (735) | (6,630) | — | — | (6,630) |
| Increase (reduction) in provisions for unallocated LAE | (25,258) | (64) | 286 | (25,036) | (14,361) | 134 | 1,768 | (12,459) |
| Amortization of fair value adjustments | 2,025 | 120 | (634) | 1,511 | 13,277 | (1,375) | (1,458) | 10,444 |
| Changes in fair value - fair value option | 1,250 | — | — | 1,250 | — | — | — | — |
| Net incurred losses and LAE | $(67,159) | $20,677 | $133,994 | $87,512 | $(48,244) | $32,722 | $195,202 | $179,680 |

Non-Life Run-off Segment

The table below provides a reconciliation of the beginning and ending reserves for losses and LAE for the three and six months ended June 30, 2017 and 2016 for the Non-life Run-off segment:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance as at beginning of period | $6,478,150 | $5,459,216 | $4,716,363 | $4,585,454 |
| Less: reinsurance reserves recoverable | 1,504,371 | 977,096 | 1,000,953 | 1,034,747 |
| Less: deferred charges on retroactive insurance | 93,605 | 254,300 | 94,551 | 255,911 |
| Net balance as at beginning of period | 4,880,174 | 4,227,820 | 3,620,859 | 3,294,796 |
| Net incurred losses and LAE: | | | | |
| Current period | 461 | 518 | 1,175 | 6,587 |
| Prior periods | (64,863) | (25,208) | (68,334) | (54,831) |
| Total net incurred losses and LAE | (64,402) | (24,690) | (67,159) | (48,244) |
| Net paid losses: | | | | |
| Current period | (130) | (2,058) | (371) | (4,048) |
| Prior periods | (144,282) | (140,998) | (300,613) | (271,321) |
| Total net paid losses | (144,412) | (143,056) | (300,984) | (275,369) |
| Effect of exchange rate movement | 56,887 | (18,963) | 74,512 | (14,323) |

| | | | | |
|---|---|---|---|---|
| Acquired on purchase of subsidiaries | — | 10,019 | — | 10,019 |
| Assumed business | — | — | 1,401,019 | 1,084,251 |
| Net balance as at June 30 | 4,728,247 | 4,051,130 | 4,728,247 | 4,051,130 |
| Plus: reinsurance reserves recoverable | 1,500,557 | 927,725 | 1,500,557 | 927,725 |
| Plus: deferred charges on retroactive reinsurance | 88,475 | 247,272 | 88,475 | 247,272 |
| Balance as at June 30 | $6,317,279 | $5,226,127 | $6,317,279 | $5,226,127 |

Net incurred losses and LAE in the Non-life Run-off segment for the three months ended June 30, 2017 and 2016 were as follows:

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $144,282 | $130 | $144,412 | $140,998 | $2,058 | $143,056 |
| Net change in case and LAE reserves | (127,393) | (16) | (127,409) | (74,832) | 272 | (74,560) |
| Net change in IBNR reserves | (62,604) | 293 | (62,311) | (101,240) | (1,596) | (102,836) |
| Amortization of deferred charges | 5,130 | — | 5,130 | 5,734 | — | 5,734 |
| Increase (reduction) in estimates of net ultimate losses | (40,585) | 407 | (40,178) | (29,340) | 734 | (28,606) |
| Increase (reduction) in provisions for bad debt | (735) | — | (735) | (5,184) | — | (5,184) |
| Increase (reduction) in provisions for unallocated LAE | (10,989) | 54 | (10,935) | (6,355) | (216) | (6,571) |
| Amortization of fair value adjustments | 678 | — | 678 | 15,671 | — | 15,671 |
| Changes in fair value - fair value option | (13,232) | — | (13,232) | — | — | — |
| Net incurred losses and LAE | $(64,863) | $461 | $(64,402) | $(25,208) | $518 | $(24,690) |

Net change in case and LAE reserves comprises the movement during the period in specific case reserve liabilities as a result of claims settlements or changes advised to us by our policyholders and attorneys, less changes in case reserves recoverable advised by us to our reinsurers as a result of the settlement or movement of assumed claims. Net change in IBNR represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

Three Months Ended June 30, 2017

The reduction in net incurred losses and LAE for the three months ended June 30, 2017 of $64.4 million included net incurred losses and LAE of $0.5 million related to current period net earned premium, related to the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $0.5 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $64.9 million, which was attributable to a reduction in estimates of net ultimate losses of $40.6 million, a reduction in provisions for bad debt of $0.7 million, a reduction in provisions for unallocated LAE of $11.0 million, relating to 2017 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired of $0.7 million and a decrease in fair value of $13.2 million related to our assumed retroactive reinsurance agreements with RSA and QBE completed during the quarter and for which we have elected the fair value option. The reduction in estimates of net ultimate losses for the three months ended June 30, 2017 included a net change in case and IBNR reserves of $190.0 million. The reduction of estimates in net ultimate losses for the three months ended June 30, 2017 was reduced by amortization of the deferred charge of $5.1 million. The reduction in provisions for bad debt of $0.7 million was a result of the collection of dividends from insolvent reinsurer estates.

Three Months Ended June 30, 2016

The reduction in net incurred losses and LAE for the three months ended June 30, 2016 of $24.7 million included net incurred losses and LAE of $0.5 million related to current period net earned premium of $0.5 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $0.5 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $25.2 million, which was attributable to a reduction in estimates of net ultimate losses of $29.3 million, a reduction in provisions for bad debt of $5.2 million, and a reduction in provisions for unallocated LAE of $6.4 million, and amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $15.7 million, relating to 2016 run-off activity. The reduction in estimates of net ultimate losses for the three months ended June 30, 2016 included a net change in

case and IBNR reserves of $176.1 million. The reduction of estimates in net ultimate losses for the three months ended June 30, 2016 was reduced by amortization of the deferred charge of $5.7 million. The reduction in provisions for bad debt of $5.2 million was a result of the collection of certain reinsurance recoverables against which bad debt provisions had been provided in earlier periods.
Net incurred losses and LAE in the Non-life Run-off segment for the six months ended June 30, 2017 and 2016 were as follows:

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $300,613 | $371 | $300,984 | $271,321 | $4,048 | $275,369 |
| Net change in case and LAE reserves | (210,527 ) | (16 ) | (210,543 ) | (183,801 ) | 456 | (183,345 ) |
| Net change in IBNR reserves | (141,682 ) | 724 | (140,958 ) | (141,753 ) | 1,854 | (139,899 ) |
| Amortization of deferred charges | 6,076 | — | 6,076 | 7,345 | — | 7,345 |
| Increase (reduction) in estimates of net ultimate losses | (45,520 ) | 1,079 | (44,441 ) | (46,888 ) | 6,358 | (40,530 ) |
| Increase (reduction) in provisions for bad debt | (735 ) | — | (735 ) | (6,630 ) | — | (6,630 ) |
| Increase (reduction) in provisions for unallocated LAE | (25,354 ) | 96 | (25,258 ) | (14,590 ) | 229 | (14,361 ) |
| Amortization of fair value adjustments | 2,025 | — | 2,025 | 13,277 | — | 13,277 |
| Changes in fair value - fair value option | 1,250 | — | 1,250 | — | — | — |
| Net incurred losses and LAE | $(68,334 ) | $1,175 | $(67,159 ) | $(54,831 ) | $6,587 | $(48,244 ) |

Six Months Ended June 30, 2017

The reduction in net incurred losses and LAE for the six months ended June 30, 2017 of $67.2 million included net incurred losses and LAE of $1.2 million related to current period net earned premium, related to the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $1.2 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $68.3 million, which was attributable to a reduction in estimates of net ultimate losses of $45.5 million, a reduction in provisions for bad debt of $0.7 million and a reduction in provisions for unallocated LAE of $25.4 million, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired of $2.0 million and an increase in fair value of $1.3 million related to our assumed retroactive reinsurance agreements with RSA and QBE completed during the period and for which we have elected the fair value option. The reduction in estimates of net ultimate losses for the six months ended June 30, 2017 included a net change in case and IBNR reserves of $352.2 million. The reduction of estimates in net ultimate losses for the six months ended June 30, 2017 was reduced by amortization of the deferred charge of $6.1 million. The reduction in provisions for bad debt of $0.7 million was a result of the collection of dividends from insolvent reinsurer estates.

Six Months Ended June 30, 2016

The reduction in net incurred losses and LAE for the six months ended June 30, 2016 of $48.2 million included net incurred losses and LAE of $6.6 million related to current period net earned premium of $5.0 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $6.6 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $54.8 million, which was attributable to a reduction in estimates of net ultimate losses of $46.9 million, a reduction in provisions for bad debt of $6.6 million and a reduction in provisions for unallocated LAE of $14.6 million, relating to 2016 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $13.3 million. The reduction in estimates of net ultimate losses for the six months ended June 30, 2016 included a net change in case and IBNR reserves of $325.6 million. The reduction of estimates in net ultimate losses for the six months ended June 30, 2016 was reduced by amortization of the deferred charge of $7.3 million.

36

Atrium

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance as at beginning of period | $212,123 | $209,919 | $212,122 | $201,017 |
| Less: reinsurance reserves recoverable | 30,625 | 26,249 | 30,009 | 25,852 |
| Net balance as at beginning of period | 181,498 | 183,670 | 182,113 | 175,165 |
| Net incurred losses and LAE: | | | | |
| Current period | 14,858 | 20,568 | 29,279 | 36,631 |
| Prior periods | (6,669) | (3,435) | (8,602) | (3,909) |
| Total net incurred losses and LAE | 8,189 | 17,133 | 20,677 | 32,722 |
| Net paid losses: | | | | |
| Current period | (5,398) | (5,255) | (9,660) | (7,493) |
| Prior periods | (7,423) | (7,268) | (16,834) | (12,778) |
| Total net paid losses | (12,821) | (12,523) | (26,494) | (20,271) |
| Effect of exchange rate movement | 2,031 | (1,912) | 2,601 | (1,248) |
| Net balance as at June 30 | 178,897 | 186,368 | 178,897 | 186,368 |
| Plus: reinsurance reserves recoverable | 29,749 | 26,856 | 29,749 | 26,856 |
| Balance as at June 30 | $208,646 | $213,224 | $208,646 | $213,224 |

Net incurred losses and LAE in the Atrium segment for the three and six months ended June 30, 2017 and 2016 were as follows:

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $7,423 | $5,398 | $12,821 | $7,268 | $5,255 | $12,523 |
| Net change in case and LAE reserves | (2,007) | 886 | (1,121) | (3,391) | 5,426 | 2,035 |
| Net change in IBNR reserves | (12,221) | 8,679 | (3,542) | (6,181) | 9,719 | 3,538 |
| Increase (reduction) in estimates of net ultimate losses | (6,805) | 14,963 | 8,158 | (2,304) | 20,400 | 18,096 |
| Increase (reduction) in provisions for unallocated LAE | 49 | (105) | (56) | (118) | 168 | 50 |
| Amortization of fair value adjustments | 87 | — | 87 | (1,013) | — | (1,013) |
| Net incurred losses and LAE | $(6,669) | $14,858 | $8,189 | $(3,435) | $20,568 | $17,133 |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $16,834 | $9,660 | $26,494 | $12,778 | $7,493 | $20,271 |
| Net change in case and LAE reserves | (5,123) | 4,596 | (527) | (7,351) | 7,614 | 263 |
| Net change in IBNR reserves | (20,358) | 15,012 | (5,346) | (7,772) | 21,201 | 13,429 |
| Increase (reduction) in estimates of net ultimate losses | (8,647) | 29,268 | 20,621 | (2,345) | 36,308 | 33,963 |
| Increase (reduction) in provisions for unallocated LAE | (75) | 11 | (64) | (189) | 323 | 134 |
| Amortization of fair value adjustments | 120 | — | 120 | (1,375) | — | (1,375) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net incurred losses and LAE | $(8,602 ) | $29,279 | $20,677 | $(3,909 ) | $36,631 | $32,722 |

StarStone

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance as at beginning of period | $1,070,314 | $972,372 | $1,059,382 | $933,678 |
| Less: reinsurance reserves recoverable | 360,495 | 299,393 | 357,231 | 299,783 |
| Net balance as at beginning of period | 709,819 | 672,979 | 702,151 | 633,895 |
| Net incurred losses and LAE: | | | | |
| Current period | 66,081 | 105,548 | 136,491 | 198,718 |
| Prior periods | (248) | (1,529) | (2,497) | (3,516) |
| Total net incurred losses and LAE | 65,833 | 104,019 | 133,994 | 195,202 |
| Net paid losses: | | | | |
| Current period | (10,645) | (9,709) | (14,861) | (10,815) |
| Prior periods | (53,517) | (54,744) | (137,497) | (105,314) |
| Total net paid losses | (64,162) | (64,453) | (152,358) | (116,129) |
| Effect of exchange rate movement | 10,313 | (7,252) | 6,623 | (7,675) |
| Assumed business | 0 | — | 31,393 | — |
| Net balance as at June 30 | 721,803 | 705,293 | 721,803 | 705,293 |
| Plus: reinsurance reserves recoverable | 393,656 | 289,201 | 393,656 | 289,201 |
| Balance as at June 30 | $1,115,459 | $994,494 | $1,115,459 | $994,494 |

Net incurred losses and LAE in the StarStone segment for the three and six months ended June 30, 2017 and 2016 were as follows:

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $53,517 | $10,645 | $64,162 | $54,744 | $9,709 | $64,453 |
| Net change in case and LAE reserves | (16,621) | 24,766 | 8,145 | (26,737) | 48,473 | 21,736 |
| Net change in IBNR reserves | (35,828) | 29,178 | (6,650) | (28,321) | 45,606 | 17,285 |
| Increase (reduction) in estimates of net ultimate losses | 1,068 | 64,589 | 65,657 | (314) | 103,788 | 103,474 |
| Increase (reduction) in provisions for unallocated LAE | (1,205) | 1,492 | 287 | (1,002) | 1,760 | 758 |
| Amortization of fair value adjustments | (111) | — | (111) | (213) | — | (213) |
| Net incurred losses and LAE | $(248) | $66,081 | $65,833 | $(1,529) | $105,548 | $104,019 |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $137,497 | $14,861 | $152,358 | $105,314 | $10,815 | $116,129 |
| Net change in case and LAE reserves | (41,464) | 40,250 | (1,214) | (22,102) | 56,493 | 34,391 |
| Net change in IBNR reserves | (94,765) | 77,963 | (16,802) | (83,234) | 127,606 | 44,372 |
| Increase (reduction) in estimates of net ultimate losses | 1,268 | 133,074 | 134,342 | (22) | 194,914 | 194,892 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Increase (reduction) in provisions for unallocated LAE | (3,131) | 3,417 | 286 | (2,036) | 3,804 | 1,768 |
| Amortization of fair value adjustments | (634) | — | (634) | (1,458) | — | (1,458) |
| Net incurred losses and LAE | $(2,497) | $136,491 | $133,994 | $(3,516) | $198,718 | $195,202 |

## 10. POLICY BENEFITS FOR LIFE AND ANNUITY CONTRACTS

Policy benefits for life contracts as at June 30, 2017 and December 31, 2016 were $114.7 million and $112.1 million, respectively. The annuity amounts presented in previous financial statements are now classified as held-for-sale liabilities. Refer to Note 2 - "Significant Accounting Policies - (d) Policy Benefits for Life and Annuity Contracts" of the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 for a description of the assumptions used and the process for establishing our assumptions and estimates.

## 11. PREMIUMS WRITTEN AND EARNED

The following table provides a summary of net premiums written and earned in our Non-life Run-off, Atrium, StarStone and Life and Annuities segments for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | Premiums Written | Premiums Earned | Premiums Written | Premiums Earned | Premiums Written | Premiums Earned | Premiums Written | Premiums Earned |
| Non-life Run-off | | | | | | | | |
| Gross | $1,222 | $4,712 | $7,066 | $9,216 | $2,205 | $6,008 | $13,763 | $17,163 |
| Ceded | 683 | (1,347) | (4,290) | (4,740) | (219) | (2,567) | (5,716) | (7,252) |
| Net | $1,905 | $3,365 | $2,776 | $4,476 | $1,986 | $3,441 | $8,047 | $9,911 |
| Atrium | | | | | | | | |
| Gross | $34,565 | $35,822 | $37,781 | $35,908 | $80,978 | $72,042 | $79,299 | $71,342 |
| Ceded | (3,238) | (3,442) | (4,619) | (4,150) | (7,732) | (7,442) | (7,957) | (7,673) |
| Net | $31,327 | $32,380 | $33,162 | $31,758 | $73,246 | $64,600 | $71,342 | $63,669 |
| StarStone | | | | | | | | |
| Gross | $224,564 | $212,720 | $223,368 | $208,548 | $451,100 | $418,304 | $440,412 | $402,664 |
| Ceded | (109,030) | (94,169) | (41,023) | (37,513) | (216,700) | (184,345) | (107,930) | (77,547) |
| Net | $115,534 | $118,551 | $182,345 | $171,035 | $234,400 | $233,959 | $332,482 | $325,117 |
| Life and Annuities | | | | | | | | |
| Life | $782 | $1,275 | $1,440 | $1,440 | $1,975 | $2,469 | $2,881 | $2,899 |
| Total | $149,548 | $155,571 | $219,723 | $208,709 | $311,607 | $304,469 | $414,752 | $401,596 |

## 12. GOODWILL, INTANGIBLE ASSETS AND DEFERRED CHARGE

The following table presents a reconciliation of the beginning and ending goodwill, intangible assets and the deferred charges during the six months ended June 30, 2017:

| | Goodwill | Intangible assets with a definite life - Other | Intangible assets with an indefinite life | Total | Intangible assets with a definite life - FVA | Other assets - Deferred Charges |
|---|---|---|---|---|---|---|
| Balance as at December 31, 2016 | $73,071 | $24,753 | $87,031 | $184,855 | $145,158 | $94,551 |
| Acquired during the period | — | — | — | — | — | — |
| Amortization | — | (2,351) | — | (2,351) | 103 | (6,076) |
| Balance as at June 30, 2017 | $73,071 | $22,402 | $87,031 | $182,504 | $145,261 | $88,475 |

Refer to Note 14 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 for more information on goodwill, intangible assets and the deferred charges.

Intangible asset amortization for the three and six months ended June 30, 2017 was $0.7 million and $2.2 million, respectively, compared to $15.3 million and $15.4 million for the comparative periods in 2016.

The gross carrying value, accumulated amortization and net carrying value of intangible assets by type and the deferred charge at June 30, 2017 and December 31, 2016 were as follows:

| | June 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Intangible assets with a definite life: | | | | | | |
| Fair value adjustments: | | | | | | |
| Losses and LAE liabilities | $458,202 | $(333,934) | $124,268 | $458,202 | $(334,475) | $123,727 |
| Reinsurance balances recoverable | (175,924) | 159,901 | (16,023) | (175,924) | 160,350 | (15,574) |
| Other Assets | (48,840) | 220 | (48,620) | (48,840) | — | (48,840) |
| Other Liabilities | 85,845 | (209) | 85,636 | 85,845 | — | 85,845 |
| Total | $319,283 | $(174,022) | $145,261 | $319,283 | $(174,125) | $145,158 |
| Other: | | | | | | |
| Distribution channel | $20,000 | $(4,777) | $15,223 | $20,000 | $(4,111) | $15,889 |
| Technology | 15,000 | (12,313) | 2,687 | 15,000 | (10,978) | 4,022 |
| Brand | 7,000 | (2,508) | 4,492 | 7,000 | (2,158) | 4,842 |
| Total | $42,000 | $(19,598) | $22,402 | $42,000 | $(17,247) | $24,753 |
| Intangible assets with an indefinite life: | | | | | | |
| Lloyd’s syndicate capacity | $37,031 | $— | $37,031 | $37,031 | $— | $37,031 |
| Licenses | 19,900 | — | 19,900 | 19,900 | — | 19,900 |
| Management contract | 30,100 | — | 30,100 | 30,100 | — | 30,100 |
| Total | $87,031 | $— | $87,031 | $87,031 | $— | $87,031 |
| | | | | | | |
| Deferred charges on retroactive reinsurance | $278,643 | $(190,168) | $88,475 | $278,643 | $(184,092) | $94,551 |

13. DEBT OBLIGATIONS

We utilize debt arrangements primarily for acquisitions and, from time to time, for general corporate purposes. Debt obligations as of June 30, 2017 and December 31, 2016 were as follows:

| Facility | Origination Date | Term | June 30, 2017 | December 31, 2016 |
|---|---|---|---|---|
| Senior Notes | March 10, 2017 | 5 years | $350,000 | $ — |
| Less: Unamortized debt issuance costs | | | (2,811 ) | — |
| Total Senior Notes | | | 347,189 | — |
| EGL Revolving Credit Facility | September 16, 2014 | 5 years | 218,598 | 535,103 |
| EGL Term Loan Facility | November 18, 2016 | 3 years | 75,000 | 75,000 |
| Sussex Facility | December 24, 2014 | 4 years | — | 63,500 |
| Total debt obligations | | | $640,787 | $ 673,603 |

For the three months ended June 30, 2017 and 2016, interest expense was $6.8 million and $5.4 million, respectively, on our debt obligations. For the six months ended June 30, 2017 and 2016, interest expense was $13.0 million and $10.8 million, respectively.

Senior Notes

On March 10, 2017, we issued Senior Notes (the "Notes") for an aggregate principal amount of $350.0 million. The Notes pay 4.5% interest semi-annually and mature on March 10, 2022. The Notes are unsecured and unsubordinated obligations that rank equal to any of our other unsecured and unsubordinated obligations, senior to any future obligations that are expressly subordinated to the Notes, effectively subordinate to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness, and structurally subordinate to all liabilities of our subsidiaries.

The Notes are rated BBB- and are redeemable at our option on a make whole basis at any time prior to the date that is one month prior to the maturity of the Notes. On or after the date that is one month prior to the maturity of the Notes, the Notes are redeemable at a redemption price equal to 100% of the principal amount of the Notes to be redeemed.

We incurred costs of $2.9 million in issuing the Notes. These costs included underwriters’ fees, legal and accounting fees, and other fees, and are capitalized and presented as a direct deduction from the principal amount of debt obligations in the consolidated balance sheets. These costs are amortized over the term of the Notes and are included in interest expense in our consolidated statements of earnings.

EGL Revolving Credit Facility

This 5-year revolving credit facility, originated on September 16, 2014 and most recently amended on March 20, 2017, is among Enstar Group Limited and certain of its subsidiaries, as borrowers and as guarantors, and various financial institutions. We are permitted to borrow up to an aggregate of $831.3 million under the facility. As of June 30, 2017, there was $612.7 million of available unutilized capacity under this facility. We are in compliance with the covenants of the EGL Revolving Credit Facility. Subsequent to June 30, 2017, we utilized $nil and repaid $2.2 million, bringing unutilized capacity under this facility to $614.9 million.

As of June 30, 2017 and December 31, 2016, there was a €75.0 million loan (approximately $85.6 million as of June 30, 2017) under the facility that was designated as a non-derivative hedge of our net investment in certain subsidiaries whose functional currency is denominated in Euros. The foreign exchange effect of revaluing these Euro borrowings resulted in a loss of $5.4 million and $6.5 million recognized in the currency translation adjustment within accumulated other comprehensive income (loss) for the three and six months ended June 30, 2017, respectively. These amounts were offset against equivalent amounts recognized upon the translation of those subsidiaries' financial statements from functional currency into U.S. dollars. There were no ineffective portions of the net investment hedge during the three and six months ended June 30, 2017 and the three months ended June 30, 2016, which would have required reclassification from accumulated other comprehensive income (loss) into earnings. The non-derivative hedge was not in place during the three months ended March 31, 2016.

EGL Term Loan Facility

On November 18, 2016, we entered into and fully utilized a 3-year $75.0 million unsecured term loan (the "EGL Term Loan Facility"). We are in compliance with the covenants of the EGL Term Loan Facility.

Sussex Facility

On December 24, 2014, we entered into a 4-year term loan (the "Sussex Facility") with two financial institutions. This facility was initially utilized to borrow $109.0 million to fund 50% of the consideration payable for the acquisition of Sussex, which was completed on January 27, 2015. We repaid the outstanding principal in June 2017 and terminated the facility.

Refer to Note 15 of the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 for further information on the terms of the above facilities.

## 14. NONCONTROLLING INTERESTS

Redeemable Noncontrolling Interest

Redeemable noncontrolling interest ("RNCI") as of June 30, 2017 and December 31, 2016 comprised the ownership interests held by the Trident V Funds ("Trident") (39.32%) and Dowling Capital Partners, L.P. ("Dowling")(1.71%) in our subsidiary North Bay Holdings Limited ("North Bay"). North Bay owns our investments in StarStone and Atrium as well as certain non-life run-off portfolios. The following is a reconciliation of the beginning and ending carrying amount of the equity attributable to the RNCI as of June 30, 2017 and December 31, 2016:

| | Six Months Ended June 30, 2017 | Year Ended December 31, 2016 |
|---|---|---|
| Balance at beginning of period | $454,522 | $417,663 |
| Dividends paid | (27,458) | — |
| Net earnings attributable to RNCI | 28,069 | 40,639 |
| Accumulated other comprehensive earnings attributable to RNCI | 1,498 | 651 |
| Change in redemption value of RNCI | 1,015 | (4,431) |
| Balance at end of period | $457,646 | $454,522 |

Refer to Note 19 - "Related Party Transactions" and Note 20 - "Commitments and Contingencies" for additional information regarding RNCI.

Noncontrolling Interest

As of June 30, 2017 and December 31, 2016, we had $9.4 million and $8.5 million, respectively, of noncontrolling interest ("NCI") primarily related to an external interest in one of our non-life run-off subsidiaries.

## 15. SHARE CAPITAL

During the six months ended June 30, 2017, 192,485 Series C Non-Voting Ordinary Shares were converted into Voting Ordinary Shares in a widely dispersed offering by their registered holders.

Refer to Note 17 of the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 for additional information on our share capital.

Table of Contents


16. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Numerator: | | | | |
| Net earnings from continuing operations | $95,057 | $ 38,216 | $149,366 | $ 83,531 |
| Net earnings (losses) from discontinued operations | (4,871 ) | 2,378 | (4,500 ) | 2,583 |
| Net earnings attributable to Enstar Group Limited | 90,186 | 40,594 | 144,866 | 86,114 |
| Denominator: | | | | |
| Weighted average ordinary shares outstanding — basic | 19,387,650 | 19,295,280 | 19,381,225 | 19,289,119 |
| Effect of dilutive securities: | | | | |
| Share-based compensation plans | 53,720 | 42,854 | 54,182 | 41,462 |
| Warrants | 70,059 | 92,330 | 70,670 | 89,960 |
| Weighted average ordinary shares outstanding — diluted | 19,511,429 | 19,430,464 | 19,506,077 | 19,420,541 |
| Earnings per share attributable to Enstar Group Limited: | | | | |
| Basic: | | | | |
| Net earnings from continuing operations | $4.90 | $ 1.98 | $7.71 | $ 4.33 |
| Net earnings (losses) from discontinued operations | $(0.25 ) | $ 0.12 | $(0.23 ) | $ 0.13 |
| Net earnings per ordinary share | $4.65 | $ 2.10 | $7.48 | $ 4.46 |
| Diluted: | | | | |
| Net earnings from continuing operations | $4.87 | $ 1.97 | $7.66 | $ 4.30 |
| Net earnings (losses) from discontinued operations | $(0.25 ) | $ 0.12 | $(0.23 ) | $ 0.13 |
| Net earnings per ordinary share | $4.62 | $ 2.09 | $7.43 | $ 4.43 |

17. SHARE-BASED COMPENSATION AND PENSIONS

We provide various employee benefits including share-based compensation, an employee share purchase plan, an annual incentive compensation program, and pension plans. These are described in Note 19 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016. On June 14, 2016, our shareholders approved the 2016 Equity Incentive Plan, which governs the terms of awards granted subsequent to its adoption. The plan replaced the expiring 2006 Equity Incentive Plan. Any outstanding awards granted under the 2006 plan remain in effect pursuant to their terms.

Share-based compensation expense for the three and six months ended June 30, 2017 was $6.2 million and $10.0 million, respectively, as compared to $3.7 million and $11.9 million for the comparative periods in 2016.

Employee share purchase plan expense for the three and six months ended June 30, 2017 and 2016 was less than $0.1 million and less than $0.2 million, respectively.

Pension expense for the three and six months ended June 30, 2017 was $3.2 million and $5.5 million, respectively, as compared to $2.8 million and $5.9 million for the comparative periods in 2016.

## 18. TAXATION

### Interim Tax Calculation Method

We use the estimated annual effective tax rate method for computing our interim tax provision. This method applies our best estimate of the effective tax rate expected for the full year to our year-to-date earnings before income taxes. We provide for income tax expense or benefit based upon our pre-tax earnings and the provisions of currently enacted tax laws. Certain items deemed to be unusual, infrequent or not reliably estimated are excluded from the estimated annual effective tax rate. In the event such items are identified, the actual tax expense or benefit is reported in the same period as the related item. Certain other items are not included in the estimated annual effective tax rate, such as changes in the assessment of valuation allowance on deferred tax assets and uncertain tax positions, if any.

### Interim Tax Expense

The effective tax rates on income for the three months ended June 30, 2017 and 2016 were 4.2% and 14.5%, respectively. The effective tax rates on income for the six months ended June 30, 2017 and 2016 were 1.0% and 13.2%, respectively. The effective tax rate on income differs from the statutory rate of 0% due to tax on foreign operations, primarily the United States and the United Kingdom. We have foreign operating subsidiaries and branch operations principally located in the United States, United Kingdom, Continental Europe and Australia that are subject to federal, foreign, state and local taxes in those jurisdictions. Deferred income tax liabilities have not been accrued with respect to the undistributed earnings of our foreign subsidiaries. If the earnings were to be distributed, as dividends or other distributions, withholding taxes may be imposed by the jurisdiction of the paying subsidiary. For our U.S. subsidiaries, we have not currently accrued any withholding taxes with respect to un-remitted earnings as management has no current intention of remitting these earnings. For our United Kingdom subsidiaries, there are no withholding taxes imposed. For our other foreign subsidiaries, it would not be practicable to compute such amounts due to a variety of factors, including the amount, timing, and manner of any repatriation. Because we operate in many jurisdictions, our net earnings are subject to risk due to changing tax laws and tax rates around the world. The current, rapidly changing economic environment may increase the likelihood of substantial changes to tax laws in the jurisdictions in which we operate.

### Accounting for Uncertainty in Income Taxes

There were no unrecognized tax benefits relating to uncertain tax positions as at June 30, 2017 and December 31, 2016.

### Tax Examinations

Our operating subsidiaries may be subject to audit by various tax authorities and may have different statutes of limitations expiration dates. With limited exceptions, our major subsidiaries that operate in the United States, United Kingdom and Australia are no longer subject to tax examinations for years before 2012.

## 19. RELATED PARTY TRANSACTIONS

### Stone Point Capital LLC

Through several private transactions occurring from May 2012 to July 2012, Trident acquired 1,350,000 of our Voting Ordinary Shares (which now constitutes approximately 8.2% of our outstanding Voting Ordinary Shares). On November 6, 2013, we appointed James D. Carey to our Board of Directors. Mr. Carey is the sole member of an entity that is one of four general partners of the entities serving as general partners for Trident, is a member of the investment committees of such general partners, and is a member and senior principal of Stone Point Capital LLC ("Stone Point"), the manager of the Trident funds.

In addition, we have entered into certain agreements with Trident with respect to Trident's co-investments in the Atrium, Arden, and StarStone acquisitions. These include investors' agreements and shareholders' agreements, which provide for, among other things: (i) our right to redeem Trident's equity interest in the Atrium/Arden and StarStone transactions in cash at fair market value within the 90 days following the fifth anniversary of the Arden and StarStone closings, respectively, and at any time following the seventh anniversary of the Arden and StarStone closings, respectively; and (ii) Trident's right to have its equity co-investment interests in the Atrium/Arden and StarStone transactions redeemed by us at fair market value (which we may satisfy in either cash or our ordinary shares) following the seventh anniversaries of the Arden closing and StarStone closing, respectively. As of June 30, 2017, we have included $438.6 million (December 31, 2016: $435.6 million) as RNCI on our balance sheet relating to these Trident co-investment transactions. Pursuant to the terms of the shareholders' agreements, Mr. Carey serves as a Trident representative on the boards of the holding companies established in connection with the Atrium/Arden and StarStone co-investment transactions. Trident also has a second representative on these boards who is a Stone Point employee.

As at June 30, 2017, we had investments in funds (carried within other investments) and a registered investment company affiliated with entities owned by Trident or otherwise affiliated with Stone Point. The fair value of the investments in the funds was $243.3 million and $232.1 million as of June 30, 2017 and December 31, 2016, respectively. The fair value of our investment in the registered investment company was $26.9 million and $20.9 million as at June 30, 2017 and December 31, 2016, respectively. For the six months ended June 30, 2017 and 2016, we recognized net realized and unrealized gains of $11.7 million and $5.8 million, respectively, in respect of the fund investments and net unrealized gains of $5.0 million and net unrealized losses of $0.5 million, respectively, in respect of the registered investment company investment. For the six months ended June 30, 2017 and 2016, we recognized interest income of $1.3 million in respect of the registered investment company.

We also have separate accounts, with a balance of $229.0 million and $215.0 million as at June 30, 2017 and December 31, 2016, respectively, managed by Eagle Point Credit Management and PRIMA Capital Advisors, which are affiliates of entities owned by Trident, with respect to which we incurred approximately $0.3 million and $0.2 million in management fees for the six months ended June 30, 2017 and 2016, respectively.

In addition, we are invested in funds (carried within other investments) managed by Sound Point Capital, an entity in which Mr. Carey has an indirect minority ownership interest and serves as a director. The fair value of our investments in Sound Point Capital funds was $26.2 million and $25.4 million as of June 30, 2017 and December 31, 2016, respectively. For the six months ended June 30, 2017 and 2016, we have recognized net unrealized gains of $0.8 million and $0.7 million, respectively, in respect of investments managed by Sound Point Capital.

Sound Point Capital has acted as collateral manager for certain of our direct investments in CLO equity securities. The fair value of these investments was $17.8 million and $20.3 million as at June 30, 2017 and December 31, 2016, respectively. For the six months ended June 30, 2017 and 2016, we recognized net unrealized losses of $2.5 million and net unrealized gains of $0.7 million, respectively. For the six months ended June 30, 2017 and 2016, we recognized interest income of $2.5 million and $3.6 million, respectively, in respect of these investments.

We have a separate account managed by Sound Point Capital, with a balance of $61.5 million and $61.2 million as at June 30, 2017 and December 31, 2016, respectively, with respect to which we incurred approximately $0.2 million and $0.1 million in management fees for the six months ended June 30, 2017 and 2016, respectively.

CPPIB

Canada Pension Plan Investment Board ("CPPIB"), together with management of Wilton Re, owns 100% of the common stock of Wilton Re. Subsequent to the closing of our transaction with Wilton Re to acquire our life settlements investments, on June 3, 2015, CPPIB purchased voting and non-voting shares in Enstar from FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII-A Parallel Vehicle L.P. and FR Torus Co-Investment, L.P. These shares constitute an approximately 9.1% voting interest and an approximately 9.8% aggregate economic interest in Enstar. On September 29, 2015, CPPIB exercised its acquired right to appoint a representative to our Board of Directors. During November 2016, CPPIB acquired additional non-voting shares in Enstar from Goldman Sachs in a private transaction. Following this transaction, CPPIB's shares constitute an approximate 9.1% voting interest and an approximate 16% aggregate economic interest in Enstar.

In addition, approximately 4.5% of our voting shares (constituting an aggregate economic interest of approximately 3.8%) are held indirectly by CPPIB through CPPIB Epsilon Ontario Limited Partnership ("CPPIB LP"). CPPIB is the sole limited partner of CPPIB LP, and CPPIB Epsilon Ontario Trust ("CPPIB Trust") is the general partner, and CPPIB's director representative is the trustee of CPPIB Trust.

We also have a pre-existing reinsurance recoverable based on normal commercial terms from a company later acquired by Wilton Re, which was carried on our balance sheet at $8.8 million as of June 30, 2017.

KaylaRe

On December 15, 2016, our equity method investee, KaylaRe Holdings Ltd. ("KaylaRe"), completed an initial capital raise of $620.0 million. We own approximately 48.4% of KaylaRe's common shares. We also have a warrant to purchase up to 900,000 common shares of KaylaRe, approximately 48.4% of the outstanding warrants, exercisable upon an initial public offering or listing of KaylaRe’s common shares at an exercise price of $20.00 per share. The remaining common shares and warrants of KaylaRe are held by the Trident funds (approximately 8.1%) and HH KaylaRe Holdings, Ltd. (approximately 43.5%), an affiliate of Hillhouse Capital Management (“Hillhouse”). In addition, Hillhouse will receive warrants as consideration for investment management services provided.

We recorded the investment in KaylaRe using the equity method basis of accounting, pursuant to the conclusion that we are not required to consolidate following an analysis based on the guidance in ASC 810 - Consolidation. Our investment in the common shares and warrants of KaylaRe was carried at $312.9 million and $294.6 million in other assets on our consolidated balance sheet as at June 30, 2017 and December 31, 2016, respectively.

In connection with our investment in KaylaRe, we entered into a Shareholders Agreement with the other shareholders in KaylaRe, including the Trident funds and Hillhouse. The Shareholders Agreement (i) provides us with the right to appoint one member to the KaylaRe Board of Directors until the date that we own less than 1,250,000 common shares, (ii) includes a five year lock-up period on common shares of KaylaRe (unless KaylaRe completes an initial public offering before the expiry of this five year lock-up period), and (iii) provides customary tag-along rights and rights of first refusal in the case of certain proposed transfers by any other shareholder and customary preemptive rights in the event of a proposed new issuance of equity securities by KaylaRe. In the event that KaylaRe has not consummated an initial public offering by March 31, 2021, the Trident funds have the right to require us and Hillhouse to purchase on a pro rata basis all of their common shares in KaylaRe at the then-current fair market value.

Our subsidiary, Enstar Limited, acts as insurance and reinsurance manager to KaylaRe's subsidiary, KaylaRe Ltd. Affiliates of Enstar have also entered into various reinsurance agreements with KaylaRe Ltd., and KaylaRe Ltd. will also have the opportunity to participate in future Enstar legacy transactions. We also provide administrative services to KaylaRe and KaylaRe Ltd.

Through a Quota Share Agreement dated December 15, 2016 (the "KaylaRe-StarStone QS"), several of our StarStone affiliates have entered into a Quota Share Treaty with KaylaRe Ltd. pursuant to which KaylaRe Ltd. reinsures 35% of all business written by these StarStone affiliates for risks attaching from January 1, 2016, net of the StarStone affiliates’ external reinsurance programs. During the three and six months ended June 30, 2017, StarStone ceded $56.0 million and $113.3 million of premium earned, $33.7 million and $60.0 million of net incurred losses and LAE and $21.9 million and $45.3 million of acquisition costs to KaylaRe Ltd. under the KaylaRe-StarStone QS. Our Non-life Run-off subsidiaries did not cede any net incurred losses to KaylaRe Ltd. during the three and six months ended

June 30, 2017.

Our consolidated balance sheets as at June 30, 2017 and December 31, 2016 include the following balances related to transactions between us and KaylaRe and KaylaRe Ltd.: reinsurance recoverable of $288.2 million (2016: $242.1 million), prepaid reinsurance premiums of $114.5 million (2016: $109.0 million), funds held of $182.3 million (2016: $182.3 million) recorded in other liabilities, insurance and reinsurance balances payable of $196.5 million (2016: $132.6 million), and ceded acquisition costs of $32.1 million (2016: $41.2 million) recorded as a reduction of deferred acquisition costs.

Hillhouse

Investment funds managed by Hillhouse collectively own approximately 2.1% of Enstar’s voting ordinary shares. These funds also own non-voting ordinary shares and warrants to purchase additional non-voting ordinary shares, which together with their voting ordinary shares, represent an approximate 9.8% economic interest in Enstar.

As of June 30, 2017 and December 31, 2016, our equity method investee, KaylaRe, had investments in a fund managed by Hillhouse with a fair value of $397.3 million and $350.0 million, respectively.

## 20. COMMITMENTS AND CONTINGENCIES

### Concentrations of Credit Risk

We believe that there are no significant concentrations of credit risk associated with our cash and cash equivalents, fixed maturity investments, or other investments. Cash, cash equivalents and fixed maturity investments are managed pursuant to guidelines that follow prudent standards of diversification and limit the allowable holdings of a single issue and issuers. Other investments are managed pursuant to guidelines that emphasize diversification and liquidity. Pursuant to these guidelines, we manage and monitor risk across a variety of investment funds and vehicles, markets and counterparties. We are also subject to custodial credit risk on our fixed maturity and equity investments, which we manage by diversifying our holdings amongst large financial institutions that are highly regulated.

We have exposure to credit risk on certain of our assets pledged to ceding companies under insurance contracts. In addition, we are potentially exposed should any insurance intermediaries be unable to fulfill their contractual obligations with respect to payments of balances owed to and by us.

Credit risk exists in relation to reinsurance balances recoverable. We remain liable to the extent that retrocessionaires do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our reinsurers. These amounts are discussed in Note 8 - "Reinsurance Balances Recoverable."

We are also subject to credit risk in relation to funds held by reinsured companies. Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our reinsurance subsidiaries. The funds balance is credited with investment income and losses payable are deducted. We are subject to credit risk if the reinsured company is unable to honor the value of the funds held balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. We routinely monitor the creditworthiness of reinsured companies with whom we have funds held arrangements. We have a significant concentration of $1.0 billion to one reinsured company which has financial strength credit ratings of A+ from A.M. Best and AA from Standard & Poor's.

We limit the amount of credit exposure to any one counterparty, and none of our counterparty credit exposures, excluding U.S. and U.K. Government instruments and the funds held counterparty noted above, exceeded 10% of shareholders’ equity as at June 30, 2017. Our credit exposure to the U.S. and U.K. governments was $1,086.6 million and $631.5 million, respectively, as at June 30, 2017.

### Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation and arbitration regarding claims. Estimated losses relating to claims arising in the ordinary course of business, including the anticipated outcome of any pending arbitration or litigation, are included in the liability for losses and LAE in our consolidated balance sheets. In addition to claims litigation, we may be subject to other lawsuits and regulatory actions in the normal course of business, which may involve, among other things, allegations of underwriting errors or omissions, employment claims or regulatory activity. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material effect on our business, results of operations or financial condition. We anticipate that, similar to the rest of the insurance and reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business, including litigation generally related to the scope of coverage with respect to asbestos and environmental and other claims.

### Unfunded Investment Commitments

As at June 30, 2017, we had unfunded commitments to investment funds of $183.7 million.

### Guarantees

As at June 30, 2017 and December 31, 2016, parental guarantees supporting subsidiaries' insurance obligations were $637.3 million and $625.7 million, respectively.

Asbestos Personal Injury Liabilities

We acquired Dana Companies, LLC ("Dana") on December 30, 2016, as described in Note 3 - "Acquisitions" of our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31,

2016. Dana continues to process asbestos personal injury claims in the normal course of business and is separately managed.
Other liabilities included $213.2 million and $220.5 million for indemnity and defense costs for pending and future claims at June 30, 2017 and December 31, 2016, respectively, determined using standard actuarial techniques for asbestos-related exposures. Other liabilities also included $2.2 million and $2.3 million for environmental liabilities associated with Dana properties at June 30, 2017 and December 31, 2016, respectively.

Other assets included $128.3 million and $133.0 million at June 30, 2017 and December 31, 2016, respectively, for estimated insurance recoveries relating to these liabilities. The recorded asset represents our assessment of the capacity of the insurance agreements to provide for the payment of anticipated defense and indemnity costs for pending claims and projected future demands. The recognition of these recoveries is based on an assessment of the right to recover under the respective contracts and on the financial strength of the insurers. The recorded asset does not represent the limits of our insurance coverage, but rather the amount we would expect to recover if the accrued indemnity and defense costs were paid in full.

Redeemable Noncontrolling Interest

We have the right to purchase the RNCI interests from the RNCI holders at certain times in the future (each such right, a "call right"), and the RNCI holders have the right to sell their RNCI interests to us at certain times in the future (each such right, a "put right"). The RNCI rights held by Trident are described in Note 19 - "Related Party Transactions." Dowling has a right to participate if Trident exercises its put right.

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 21. SEGMENT INFORMATION

We monitor and report our results of operations in four segments: Non-life Run-off, Atrium, StarStone and Life and Annuities. These segments are described in Note 1 and Note 24 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016.

The following tables set forth selected and condensed consolidated statement of earnings results by segment for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Eliminations | Consolidated |
| INCOME | | | | | | |
| Net premiums earned | $3,365 | $32,380 | $118,551 | $1,275 | $ — | $ 155,571 |
| Fees and commission income | 10,817 | 8,070 | — | — | (220) | 18,667 |
| Net investment income | 39,572 | 861 | 7,189 | 3,019 | (1,224) | 49,417 |
| Net realized and unrealized gains (losses) | 50,556 | 474 | 7,209 | (6,362) | — | 51,877 |
| Other income | 10,769 | 50 | 33 | 4 | — | 10,856 |
| | 115,079 | 41,835 | 132,982 | (2,064) | (1,444) | 286,388 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | (64,402) | 8,189 | 65,833 | — | — | 9,620 |
| Life and annuity policy benefits | — | — | — | 4,289 | — | 4,289 |
| Acquisition costs | (946) | 12,057 | 17,698 | 150 | 1,396 | 30,355 |
| General and administrative expenses | 63,335 | 9,950 | 32,950 | 1,871 | (1,616) | 106,490 |
| Interest expense | 7,646 | 265 | 644 | 242 | (1,224) | 7,573 |
| Net foreign exchange losses | 1,879 | 3,480 | 815 | 948 | — | 7,122 |
| Loss on sale of subsidiary | — | — | — | 9,609 | — | 9,609 |
| | 7,512 | 33,941 | 117,940 | 17,109 | (1,444) | 175,058 |
| EARNINGS (LOSSES) BEFORE INCOME TAXES | 107,567 | 7,894 | 15,042 | (19,173) | — | 111,330 |
| INCOME TAXES | (3,679) | (368) | (679) | (5) | — | (4,731) |
| NET EARNINGS (LOSSES) FROM CONTINUING OPERATIONS | 103,888 | 7,526 | 14,363 | (19,178) | — | 106,599 |
| NET EARNINGS (LOSSES) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE | — | — | — | (4,871) | — | (4,871) |
| Less: Net earnings attributable to noncontrolling interest | (2,621) | (3,087) | (5,834) | — | — | (11,542) |
| NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $101,267 | $4,439 | $8,529 | $(24,049) | $ — | $ 90,186 |

50

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | Six Months Ended June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Non-life run-off | Atrium | StarStone | Life and annuities | Eliminations | Consolidated |
| INCOME | | | | | | |
| Net premiums earned | $3,441 | $64,600 | $233,959 | $2,469 | $ — | $ 304,469 |
| Fees and commission income | 19,540 | 11,442 | 1,166 | — | (1,567) | 30,581 |
| Net investment income | 75,301 | 1,985 | 12,638 | 10,353 | (2,121) | 98,156 |
| Net realized and unrealized gains (losses) | 102,114 | 892 | 13,908 | (6,518) | — | 110,396 |
| Other income | 22,697 | 119 | 79 | 159 | | 23,054 |
| | 223,093 | 79,038 | 261,750 | 6,463 | (3,688) | 566,656 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | (67,159) | 20,677 | 133,994 | — | — | 87,512 |
| Life and annuity policy benefits | — | — | — | 3,988 | — | 3,988 |
| Acquisition costs | (546) | 22,829 | 28,312 | 581 | | 51,176 |
| General and administrative expenses | 123,040 | 17,161 | 66,971 | 3,353 | (1,567) | 208,958 |
| Interest expense | 14,327 | 536 | 1,266 | 433 | (2,121) | 14,441 |
| Net foreign exchange losses (gains) | 2,664 | 4,312 | 2,708 | 1,153 | — | 10,837 |
| Loss on sale of subsidiary | — | — | — | 9,609 | — | 9,609 |
| | 72,326 | 65,515 | 233,251 | 19,117 | (3,688) | 386,521 |
| EARNINGS BEFORE INCOME TAXES | 150,767 | 13,523 | 28,499 | (12,654) | — | 180,135 |
| INCOME TAXES | (4,639) | (724) | 3,570 | (9) | — | (1,802) |
| NET EARNINGS (LOSSES) FROM CONTINUING OPERATIONS | 146,128 | 12,799 | 32,069 | (12,663) | — | 178,333 |
| NET EARNINGS (LOSSES) FROM DISCONTINUING OPERATIONS, NET OF INCOME TAX EXPENSE | — | — | — | (4,500) | — | (4,500) |
| Less: Net earnings attributable to noncontrolling interest | (10,630) | (5,250) | (13,087) | — | — | (28,967) |
| NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $135,498 | $7,549 | $18,982 | $(17,163) | $ — | $ 144,866 |

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | Three Months Ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Eliminations | Consolidated |
| INCOME | | | | | | |
| Net premiums earned | $4,476 | $31,758 | $171,035 | $1,440 | $ — | $208,709 |
| Fees and commission income | 865 | 6,378 | — | — | 3,244 | 10,487 |
| Net investment income | 37,581 | 635 | 5,753 | 1,822 | (859) | 44,932 |
| Net realized and unrealized gains | 26,161 | 68 | 8,021 | 253 | — | 34,503 |
| Other income | 2,036 | 65 | 1,584 | (396) | — | 3,289 |
| | 71,119 | 38,904 | 186,393 | 3,119 | 2,385 | 301,920 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | (24,690) | 17,133 | 104,019 | — | — | 96,462 |
| Life and annuity policy benefits | — | — | — | (1,613) | — | (1,613) |
| Acquisition costs | (56) | 11,240 | 32,518 | 162 | (17) | 43,847 |
| General and administrative expenses | 61,449 | 6,629 | 31,311 | 1,551 | 3,266 | 104,206 |
| Interest expense | 6,016 | — | — | 269 | (864) | 5,421 |
| Net foreign exchange losses (gains) | (3,096) | 256 | 1,027 | (43) | — | (1,856) |
| | 39,623 | 35,258 | 168,875 | 326 | 2,385 | 246,467 |
| EARNINGS BEFORE INCOME TAXES | 31,496 | 3,646 | 17,518 | 2,793 | — | 55,453 |
| INCOME TAXES | (3,486) | (580) | (3,970) | (14) | — | (8,050) |
| NET EARNINGS FROM CONTINUING OPERATIONS | 28,010 | 3,066 | 13,548 | 2,779 | — | 47,403 |
| NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE | — | — | — | 2,378 | — | 2,378 |
| Less: Net earnings attributable to noncontrolling interest | (2,370) | (1,258) | (5,559) | — | — | (9,187) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $25,640 | $1,808 | $7,989 | $5,157 | $ — | $40,594 |

52

Table of Contents
ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

| | Six Months Ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Non-life run-off | Atrium | StarStone | Life and annuities | Eliminations | Consolidated |
| INCOME | | | | | | |
| Net premiums earned | $9,911 | $63,669 | $325,117 | $2,899 | $ — | $ 401,596 |
| Fees and commission income | 7,431 | 10,210 | — | — | (730 ) | 16,911 |
| Net investment income | 73,811 | 1,189 | 11,033 | 10,460 | (1,281) | 95,212 |
| Net realized and unrealized gains | 49,551 | 108 | 22,370 | 751 | — | 72,780 |
| Other income | 3,836 | 99 | 1,595 | 169 | — | 5,699 |
| | 144,540 | 75,275 | 360,115 | 14,279 | (2,011) | 592,198 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | (48,244 ) | 32,722 | 195,202 | — | — | 179,680 |
| Life and annuity policy benefits | — | — | — | (1,455 ) | — | (1,455 ) |
| Acquisition costs | 1,926 | 22,327 | 64,578 | 328 | (283 ) | 88,876 |
| General and administrative expenses | 119,562 | 13,037 | 61,466 | 3,522 | (447 ) | 197,140 |
| Interest expense | 11,496 | — | — | 604 | (1,281) | 10,819 |
| Net foreign exchange losses (gains) | (2,216 ) | 2,071 | (272 ) | 333 | — | (84 ) |
| | 82,524 | 70,157 | 320,974 | 3,332 | (2,011) | 474,976 |
| EARNINGS BEFORE INCOME TAXES | 62,016 | 5,118 | 39,141 | 10,947 | — | 117,222 |
| INCOME TAXES | (8,159 ) | (1,258 ) | (5,988 ) | (14 ) | — | (15,419 ) |
| NET EARNINGS FROM CONTINUING OPERATIONS | 53,857 | 3,860 | 33,153 | 10,933 | — | 101,803 |
| NET EARNINGS FROM DISCONTINUING OPERATIONS, NET OF INCOME TAX EXPENSE | — | — | — | 2,583 | — | 2,583 |
| Less: Net earnings attributable to noncontrolling interest | (3,085 ) | (1,584 ) | (13,603 ) | — | — | (18,272 ) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $50,772 | $2,276 | $19,550 | $13,516 | $ — | $ 86,114 |

Assets by Segment
Invested assets are managed on a subsidiary-by-subsidiary basis, and investment income and realized and unrealized gains (losses) on investments are recognized in each segment as earned. Our total assets as at June 30, 2017 and December 31, 2016 by segment were as follows (the elimination items include the elimination of intersegment assets):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Total assets: | | |
| Non-life Run-off | $10,190,090 | $8,297,103 |
| Atrium | 576,995 | 563,754 |
| StarStone | 3,107,430 | 2,968,316 |
| Life and annuities | 1,555,754 | 1,644,013 |
| Less: | | |
| Eliminations | (599,498 ) | (607,442 ) |

| | |
|---|---|
| $14,830,771 | $12,865,744 |

Table of Contents

## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition as of June 30, 2017 and results of operations for the three and six months ended June 30, 2017 and 2016 should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this quarterly report and the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2016. Some of the information contained in this discussion and analysis or included elsewhere in this quarterly report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and the timing of events could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors" included in this quarterly report and in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

Table of Contents

## Business Overview

We are a multi-faceted insurance group that offers innovative capital release solutions and specialty underwriting capabilities through our network of group companies in Bermuda, the United States, the United Kingdom, Continental Europe, Australia, and other international locations. Our core focus is acquiring and managing insurance and reinsurance companies and portfolios of insurance and reinsurance business in run-off. Since the formation of our Bermuda-based holding company in 2001, we have completed over 75 acquisitions or portfolio transfers.

Until 2013, all but one of our acquisitions had been in the non-life run-off business, which for us generally includes property and casualty, workers' compensation, asbestos and environmental, construction defect, marine, aviation and transit, and other closed business.

While our core focus remains acquiring and managing non-life run-off business, in recent years, we expanded our business to include active underwriting through our acquisitions of Atrium and StarStone. We partnered with the Trident V Funds ("Trident") in the Atrium and StarStone acquisitions, with Enstar owning a 59.0% interest, Trident owning a 39.3% interest, and Dowling Capital Partners, L.P. ("Dowling") owning a 1.7% interest. We also expanded our portfolio of run-off businesses to include closed life and annuities, primarily through our acquisition of Pavonia Holdings (US) Inc. and its subsidiaries ("Pavonia") from HSBC Holdings plc in 2013, although we have recently entered into an agreement to sell Pavonia.

We have four segments of business that are each managed, operated and reported upon separately: (i) Non-life Run-off; (ii) Atrium; (iii) StarStone; and (iv) Life and Annuities. For additional information relating to our segments, see "Item 1. Business - Operating Segments" in our Annual Report on Form 10-K for the year ended December 31, 2016.

Our business strategies are discussed in "Item 1. Business - Company Overview", "- Business Strategy", and "- Recent Acquisitions and Significant New Business" in our Annual Report on Form 10-K for the year ended December 31, 2016.

## Key Performance Indicator

Our primary corporate objective is to grow our fully diluted book value per share. This is driven primarily by growth in our net earnings, which is in turn driven in large part by successfully completing new acquisitions, effectively managing companies and portfolios of business that we have acquired, and executing our active underwriting strategies. The drivers of our book value growth are discussed in "Item 1. Business - Business Strategy" in our Annual Report on Form 10-K for the year ended December 31, 2016.

During the six months ended June 30, 2017, we increased our book value per share on a fully diluted basis by 4.8% to $150.56 per share. The increase was primarily due to net earnings attributable to Enstar Group Limited of $144.9 million.

## Current Outlook

Our business strategy includes generating growth through acquisitions and reinsurance transactions, particularly in our Non-life Run-off segment, and during the six months ended June 30, 2017 we completed two significant loss portfolio transfer reinsurance transactions with RSA Insurance Group PLC ("RSA") and QBE Insurance Group Limited ("QBE") in our Non-life Run-off segment. The net insurance reserves of $1.2 billion assumed in the RSA transaction reflected the impact of the recent updates to the Ogden rate, which is a discount rate used to determine lump sum compensation payments to injured claimants in the U.K. In our Life and Annuities segment, we have entered into transactions to sell Pavonia and Laguna Life DAC ("Laguna") that are expected to close in the second half of 2017.

Our industry continues to experience challenging market conditions in underwriting and investing. We continue to see overcapacity in many markets for insurable risks, resulting in continued pressure on premium rates and terms and conditions. We seek to maintain a disciplined underwriting approach to underwrite for profitability in our active underwriting segments, StarStone and Atrium. For the six months ended June 30, 2017 compared to 2016, total gross premiums written were relatively consistent in both our StarStone and Atrium segments as we selectively grew in certain lines, which included the development of additional underwriting capabilities. StarStone's net earned premium, net incurred losses and acquisition costs decreased significantly as a result of the 35% quota share reinsurance agreement with our equity method investee KaylaRe Holdings Ltd. ("KaylaRe"), which covers the 2016 and subsequent underwriting years.

Low yields persist in the investment markets and investment returns remain volatile. We expect to maintain our investment strategy, which emphasizes the preservation of our assets, credit quality, and diversification. We are implementing strategies to selectively increase the duration in certain investment portfolios. We will continue to seek superior risk-adjusted returns by allocating a portion of our portfolio to non-investment grade securities or alternative investments in accordance with our investment guidelines.

Although there was significant volatility in the financial and foreign exchange markets following the Brexit referendum on June 23, 2016, this did not have a material impact on our financial statements. This volatility is expected to continue. During the six months ended June 30, 2017, Article 50 of the Lisbon Treaty was triggered, which allows two years for the United Kingdom and the 27 remaining European Union members to reach an agreement, otherwise the United Kingdom will leave the European Union on March 29, 2019. For companies based in the United Kingdom, including our active underwriting and run-off companies, there is heightened uncertainty regarding trading relationships with countries in the European Union. Both our StarStone and Atrium operations have well-diversified sources of premium, which may mitigate the potential impact of Brexit. The majority of business written in StarStone and Atrium is in United States dollars, so the impact of currency volatility on those segments has not been significant. In addition, StarStone already has established operations within the European Economic Area. Lloyd's has stated its intention to retain passporting rights and to lobby the government to include this in its negotiations with the European Union, whilst also evaluating alternative models to access the markets. In the near-term, access to markets is unaffected, and all contracts entered into up until that time are expected to remain valid into the post-Brexit period.

Recent Developments

Our transactions take the form of either acquisition of companies or loss portfolio transfer, where a reinsurance contract transfers a portfolio of loss and loss adjustment expenses ("LAE") liabilities from a (re)insurance counterparty to an Enstar-owned reinsurer.

RSA

On February 7, 2017, we entered into an agreement to reinsure U.K. employers' liability legacy business of RSA. Pursuant to the transaction, our subsidiary assumed gross insurance reserves of £1,046.4 million ($1,301.8 million) relating to 2005 and prior year business. Net insurance reserves assumed were £927.5 million ($1,153.9 million), and the reinsurance premium paid to Enstar’s subsidiary was £801.6 million ($997.2 million). We elected the fair value option for this reinsurance contract, which means changes in the fair value of the net reserves are included in net incurred losses and LAE. The initial fair value adjustment was $174.1 million on the gross reserves and $156.7 million on the net reserves. Refer to Note 6 - "Fair Value Measurements" for a description of the fair value process and assumptions.

Following the initial reinsurance transaction, which transferred the economics of the portfolio up to the policy's limits, we and RSA are pursuing a portfolio transfer of the business under Part VII of the Financial Services and Markets Act 2000, which will provide legal finality for RSA's obligations.  The transfer is subject to court, regulatory and other approvals.

QBE

On January 11, 2017, we closed a transaction to reinsure multi-line property and casualty business of QBE. Our subsidiary assumed gross reinsurance reserves of approximately $1,019.0 million (net reserves of $447.0 million) relating to the portfolio, which primarily includes workers' compensation, construction defect, and general liability discontinued lines of business. We elected the fair value option for this reinsurance contract. The initial fair value adjustment was $180.0 million on the gross reserves and $43.2 million on the net reserves. Refer to Note 6 - "Fair Value Measurements" for a description of the fair value process and assumptions.

In addition our subsidiary has pledged a portion of the premium as collateral to a subsidiary of QBE, and we have provided additional collateral and a limited parental guarantee.

Businesses Held for Sale in the Life and Annuities Segment

On May 12, 2017, we entered into a definitive agreement to sell Laguna for total consideration of €25.6 million (approximately $29.2 million) to an affiliate of Monument Re Limited. The transaction is expected to close in the third quarter of 2017. The closing of the transaction is subject to customary closing conditions, including regulatory approvals. The proceeds of the sale are expected to be used for general corporate purposes.

On February 17, 2017, we entered into a definitive agreement to sell Pavonia for total consideration of $120.0 million to Southland National Holdings, Inc. The transaction is expected to close in the third or fourth quarter of 2017.

Table of Contents

The closing of the transaction is subject to customary closing conditions, including regulatory approvals. The proceeds of the sale are expected to be used to pay down our revolving credit facility.

Pavonia and Laguna comprise a substantial portion of the Life and Annuities segment. Refer to Note 3 - "Businesses Held-for-Sale" for further information. Upon completion of these transactions, we expect to re-evaluate our reporting segments.

Non-GAAP Financial Measures

In presenting our results for the Atrium and StarStone segments, we discuss the loss ratio, acquisition cost ratio, other operating expense ratio, and the combined ratio of our active underwriting operations within these segments. While we consider these measures to be non-GAAP, management believes that these ratios provide the most meaningful measure for understanding our underwriting profitability. These non-GAAP measures may be defined or calculated differently by other companies. There are no comparable GAAP measures to our insurance ratios.

The loss ratio is calculated by dividing net incurred losses and LAE by net premiums earned. The acquisition cost ratio is calculated by dividing acquisition costs by net premiums earned. The other operating expense ratio is calculated by dividing other operating expenses by net premiums earned. The combined ratio is the sum of the loss ratio, the acquisition cost ratio and the other operating expense ratio. The ratios exclude items related to the holding companies, which we believe is the most meaningful presentation because these items are not incremental and/or directly related to the individual underwriting operations.

In the loss ratio, the excluded net premiums earned and net incurred losses and LAE of the holding companies relate to the amortization of our fair value adjustments associated with the liabilities for unearned premiums and losses and LAE acquired on acquisition date. Fair value purchase accounting adjustments established at the date of acquisition are recorded by the holding companies.

In Atrium’s other operating expense ratio, the excluded general and administrative expenses relate to amortization of the definite-lived intangible assets in the holding company and expenses relating to Atrium Underwriters Limited ("AUL"), including managing agency employee salaries, benefits, bonuses and current year share grant costs. The excluded AUL general and administrative expenses relate to expenses incurred in managing Syndicate 609 ("the syndicate"), and eliminated items represent our share of the fees and commissions paid to AUL by the syndicate. We believe it is a more meaningful presentation to exclude the costs in managing the syndicate because they are principally funded by the profit commission fees earned from the syndicate, which is a revenue item not included in the insurance ratios.

In StarStone’s other operating expense ratio, the excluded general and administrative expenses primarily relate to the amortization of the definite-lived intangible assets, recorded at the holding company level.

Table of Contents

Consolidated Results of Operations - For the Three and Six Months Ended June 30, 2017 and 2016

The following table sets forth our consolidated statements of earnings for each of the periods indicated. For a discussion of the critical accounting policies that affect the results of operations, see "Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2016, and within this Quarterly Report on Form 10-Q.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands of U.S. dollars) | | | |
| INCOME | | | | |
| Net premiums earned | $155,571 | $208,709 | $304,469 | $401,596 |
| Fees and commission income | 18,667 | 10,487 | 30,581 | 16,911 |
| Net investment income | 49,417 | 44,932 | 98,156 | 95,212 |
| Net realized and unrealized gains | 51,877 | 34,503 | 110,396 | 72,780 |
| Other income | 10,856 | 3,289 | 23,054 | 5,699 |
| | 286,388 | 301,920 | 566,656 | 592,198 |
| EXPENSES | | | | |
| Net incurred losses and LAE | 9,620 | 96,462 | 87,512 | 179,680 |
| Life and annuity policy benefits | 4,289 | (1,613) | 3,988 | (1,455) |
| Acquisition costs | 30,355 | 43,847 | 51,176 | 88,876 |
| General and administrative expenses | 106,490 | 104,206 | 208,958 | 197,140 |
| Interest expense | 7,573 | 5,421 | 14,441 | 10,819 |
| Net foreign exchange losses (gains) | 7,122 | (1,856) | 10,837 | (84) |
| Loss on sale of subsidiary | 9,609 | — | 9,609 | — |
| | 175,058 | 246,467 | 386,521 | 474,976 |
| EARNINGS BEFORE INCOME TAXES | 111,330 | 55,453 | 180,135 | 117,222 |
| INCOME TAXES | (4,731) | (8,050) | (1,802) | (15,419) |
| NET EARNINGS FROM CONTINUING OPERATIONS | 106,599 | 47,403 | 178,333 | 101,803 |
| NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME | (4,871) | 2,378 | (4,500) | 2,583 |
| Less: Net earnings attributable to noncontrolling interest | (11,542) | (9,187) | (28,967) | (18,272) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $90,186 | $40,594 | $144,866 | $86,114 |

Highlights

Consolidated Results of Operations for the Three Months Ended June 30, 2017

- Consolidated net earnings of $90.2 million and basic and diluted earnings per ordinary share of $4.65 and $4.62, respectively
- Net earnings from Non-life Run-off segment of $101.3 million, including investment results
- Net investment income of $49.4 million and net realized and unrealized gains of $51.9 million
- Net premiums earned of $155.6 million, including $118.6 million and $32.4 million in our StarStone and Atrium segments, respectively
- Combined ratios of 81.0% and 98.3% for the active underwriting operations within our Atrium and StarStone segments, respectively (refer to "Non-GAAP Financial Measures" above)

Consolidated Results of Operations for the Six Months Ended June 30, 2017

- Consolidated net earnings of $144.9 million and basic and diluted earnings per ordinary share of $7.47 and

Table of Contents

$7.43, respectively

- Net earnings from Non-life Run-off segment of $135.5 million, including investment results
- Net investment income of $98.2 million and net realized and unrealized gains of $110.4 million
- Net premiums earned of $304.5 million, including $234.0 million and $64.6 million in our StarStone and Atrium segments, respectively
- Combined ratios of 82.2% and 98.2% for the active underwriting operations within our Atrium and StarStone segments, respectively

Consolidated Financial Condition as at June 30, 2017:

- Total investments and cash of $8,430.7 million
- Total reinsurance balances recoverable of $2,032.2 million
- Total assets of $14,830.8 million
- Shareholders' equity of $2,962.2 million and redeemable noncontrolling interest of $457.6 million
- Total gross reserves for losses and LAE of $7,641.4 million, with $1,401.0 million of net reserves assumed in our Non-life Run-off operations during the six months ended June 30, 2017
- Diluted book value per ordinary share of $150.56

Consolidated Overview - For the Three Months Ended June 30, 2017 and 2016

We reported consolidated net earnings attributable to Enstar Group Limited shareholders of $90.2 million for the three months ended June 30, 2017, an increase of $49.6 million from $40.6 million for the three months ended June 30, 2016. Our comparative results were impacted by the loss portfolio transfer reinsurance transactions that we completed in 2017 and 2016 with RSA, QBE, Allianz SE, The Coca-Cola Company, and Neon Underwriting Limited (formerly Marketform), and the acquisition of Dana Companies, LLC in 2016.

The most significant drivers of our consolidated financial performance during the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 included:

- Non-life Run-off - Net earnings attributable to the Non-life Run-off segment were $101.3 million and $25.6 million for the three months ended June 30, 2017 and 2016, respectively. The increase in net earnings of $75.6 million was primarily due to an increase in net favorable loss development of $39.7 million and an increase in investment results of $26.4 million;
- StarStone - Net earnings attributable to the StarStone segment were $8.5 million and $8.0 million for the three months ended June 30, 2017 and 2016, respectively;
- Atrium - Net earnings for the three months ended June 30, 2017 and 2016 were $4.4 million and $1.8 million, respectively. The increase was attributable to improved underwriting and investment results;
- Net Investment Income - Net investment income was $49.4 million and $44.9 million for the three months ended June 30, 2017 and 2016, respectively. The increase was primarily due to an increase in average investable assets due to the transactions noted above; and
- Net Realized and Unrealized Gains - Net realized and unrealized gains were $51.9 million and $34.5 million for the three months ended June 30, 2017 and 2016, respectively. This increase was primarily attributable to an increase in net unrealized gains of $19.4 million relating to other investments; partially offset by
- Life and Annuities - Net earnings (losses) attributable to the Life and Annuities segment were ($24.0) million and $5.2 million for the three months ended June 30, 2017 and 2016, respectively, with the decrease primarily attributable to the loss on sale of Laguna and impairments of our investments in life settlements; and
- Noncontrolling Interest - Noncontrolling interest in earnings is directly attributable to the results from those subsidiary companies in which there are either noncontrolling interests or redeemable noncontrolling interests. For the three months ended June 30, 2017 and 2016, the noncontrolling interest in earnings was

59

Table of Contents

$11.5 million and $9.2 million, respectively. The increase was primarily due to improved results of our Atrium segment.

Consolidated Overview - For the Six Months Ended June 30, 2017 and 2016

We reported consolidated net earnings attributable to Enstar Group Limited shareholders of $144.9 million for the six months ended June 30, 2017, an increase of $58.8 million from $86.1 million for the six months ended June 30, 2016. Our comparative results were impacted by our acquisition and disposition activity and completed loss portfolio transfer reinsurance transactions noted above.

The most significant drivers of our consolidated financial performance during the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 included:

- Non-life Run-off - Net earnings attributable to the Non-life Run-off segment were $135.5 million and $50.8 million for the six months ended June 30, 2017 and 2016, respectively. The increase in net earnings of $84.7 million was primarily due to an increase in investment results of $54.1 million and an increase in net favorable loss development of $18.9 million;

Atrium - Net earnings for the six months ended June 30, 2017 and 2016 were $7.5 million and $2.3 million, respectively. The increase was attributable to improved underwriting and investment results;

- Net Investment Income - Net investment income was $98.2 million and $95.2 million for the six months ended June 30, 2017 and 2016, respectively. The increase was primarily attributable to an increase in average investable assets due to the transactions noted above;

- Net Realized and Unrealized Gains - Net realized and unrealized gains were $110.4 million and $72.8 million for the six months ended June 30, 2017 and 2016, respectively. This increase was primarily attributable to to an increase in net unrealized gains of $54.4 million relating to other investments; partially offset by

- StarStone - Net earnings attributable to the StarStone segment were $19.0 million and $19.6 million for the six months ended June 30, 2017 and 2016, respectively;

- Life and Annuities - Net earnings (losses) attributable to the Life and Annuities segment were ($17.2) million and $13.5 million for the six months ended June 30, 2017 and 2016, respectively, with the decrease primarily attributable to the loss on sale of Laguna and impairments of our investments in life settlements; and

Noncontrolling Interest - Noncontrolling interest in earnings is directly attributable to the results from those subsidiary companies in which there are either noncontrolling interests or redeemable noncontrolling interests. For the six months ended June 30, 2017 and 2016, the noncontrolling interest in earnings was $29.0 million and $18.3 million, respectively, primarily reflecting improved results of our Atrium segment and our subsidiaries in the Non-Life Run-off segment in which third parties hold noncontrolling interests.

Table of Contents

Results of Operations by Segment - For the Three and Six Months Ended June 30, 2017 and 2016

We have four segments of business that are each managed, operated and reported on separately: (i) Non-life Run-off; (ii) Atrium; (iii) StarStone; and (iv) Life and Annuities. For a description of our segments, see "Item 1. Business - Operating Segments" in our Annual Report on Form 10-K for the year ended December 31, 2016.

The below table provides a split by operating segment of the net earnings attributable to Enstar Group Limited:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands of U.S. dollars) | | | |
| Segment split of net earnings attributable to Enstar Group Limited: | | | | |
| Non-life Run-off | $101,267 | $25,640 | $135,498 | $50,772 |
| Atrium | 4,439 | 1,808 | 7,549 | 2,276 |
| StarStone | 8,529 | 7,989 | 18,982 | 19,550 |
| Life and Annuities | (24,049) | 5,157 | (17,163) | 13,516 |
| Net earnings attributable to Enstar Group Limited | $90,186 | $40,594 | $144,866 | $86,114 |

The following is a discussion of our results of operations by segment.

Table of Contents

Non-life Run-off Segment

Our Non-life Run-off segment comprises the operations of our subsidiaries that are running off their property and casualty and other non-life lines of business, including the run-off business of Arden Reinsurance Company Ltd., acquired in the Atrium transaction, and StarStone. It also includes our smaller management business, which manages the run-off portfolios of third parties through our service companies. The following is a discussion and analysis of the results of operations for our Non-life Run-off segment for the three and six months ended June 30, 2017 and 2016, which are summarized below.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| INCOME | | | | | | |
| Net premiums earned | $3,365 | $4,476 | $(1,111) | $3,441 | $9,911 | $(6,470) |
| Fees and commission income | 10,817 | 865 | 9,952 | 19,540 | 7,431 | 12,109 |
| Net investment income | 39,572 | 37,581 | 1,991 | 75,301 | 73,811 | 1,490 |
| Net realized and unrealized gains | 50,556 | 26,161 | 24,395 | 102,114 | 49,551 | 52,563 |
| Other income | 10,769 | 2,036 | 8,733 | 22,697 | 3,836 | 18,861 |
| | 115,079 | 71,119 | 43,960 | 223,093 | 144,540 | 78,553 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | (64,402) | (24,690) | (39,712) | (67,159) | (48,244) | (18,915) |
| Acquisition costs | (946) | (56) | (890) | (546) | 1,926 | (2,472) |
| General and administrative expenses | 63,335 | 61,449 | 1,886 | 123,040 | 119,562 | 3,478 |
| Interest expense | 7,646 | 6,016 | 1,630 | 14,327 | 11,496 | 2,831 |
| Net foreign exchange losses (gains) | 1,879 | (3,096) | 4,975 | 2,664 | (2,216) | 4,880 |
| | 7,512 | 39,623 | (32,111) | 72,326 | 82,524 | (10,198) |
| EARNINGS BEFORE INCOME TAXES | 107,567 | 31,496 | 76,071 | 150,767 | 62,016 | 88,751 |
| INCOME TAXES | (3,679) | (3,486) | (193) | (4,639) | (8,159) | 3,520 |
| NET EARNINGS | 103,888 | 28,010 | 75,878 | 146,128 | 53,857 | 92,271 |
| Less: Net earnings attributable to noncontrolling interest | (2,621) | (2,370) | (251) | (10,630) | (3,085) | (7,545) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $101,267 | $25,640 | $75,627 | $135,498 | $50,772 | $84,726 |

Overall Results

Three Months Ended June 30: Net earnings were $101.3 million and $25.6 million for the three months ended June 30, 2017 and 2016, respectively, an increase of $75.6 million. This was primarily due to favorable investment results, an increase in fees and commission income, an increase in other income as well as favorable loss reserve development. The increase was partially offset by an increase in general and administrative expenses, interest expense and net foreign exchange losses, amongst other items.

Six Months Ended June 30: Net earnings were $135.5 million and $50.8 million for the six months ended June 30, 2017 and 2016, respectively, an increase of $84.7 million. This was primarily due to favorable investment results, an increase in fees and commission income, an increase in other income and favorable loss reserve development. The increase was partially offset by an increase in general and administrative expenses, interest expense and net foreign exchange losses, amongst other items.

The major components of earnings are discussed below, except for investment results which are separately discussed below in "Investments."

62

Table of Contents

Net Premiums Earned:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Gross premiums written | $1,222 | $7,066 | $(5,844) | $2,205 | $13,763 | $(11,558) |
| Ceded reinsurance premiums written | 683 | (4,290) | 4,973 | (219) | (5,716) | 5,497 |
| Net premiums written | 1,905 | 2,776 | (871) | 1,986 | 8,047 | (6,061) |
| Gross premiums earned | 4,712 | 9,216 | (4,504) | 6,008 | 17,163 | (11,155) |
| Ceded reinsurance premiums earned | (1,347) | (4,740) | 3,393 | (2,567) | (7,252) | 4,685 |
| Net premiums earned | $3,365 | $4,476 | $(1,111) | $3,441 | $9,911 | $(6,470) |

Because business in this segment is in run-off, our general expectation is for premiums associated with legacy business to decline in future periods. However, the actual amount in any particular year will be impacted by new acquisitions during the year and the run-off of premiums from acquisitions completed in recent years. Premiums earned in this segment are generally offset by net incurred losses and LAE related to the premiums.

Three and Six Months Ended June 30: Premiums written and earned in the three and six months ended June 30, 2017 and 2016 were primarily related to the run-off business of Sussex Insurance Company ("Sussex") and Alpha Insurance SA ("Alpha") for the obligatory renewal of certain policies that we are in the process of placing into run-off.

Fees and Commission Income:

Three and Six Months Ended June 30: Our management companies in the Non-life Run-off segment earned fees and commission income of $10.8 million and $0.9 million for the three months ended June 30, 2017 and 2016, respectively, and $19.5 million and $7.4 million for the six months ended June 30, 2017 and 2016, respectively. The increase in fees and commission income is primarily related to services provided to KaylaRe. While our consulting subsidiaries continue to provide management and consultancy services, claims inspection services and reinsurance collection services to third-party clients in limited circumstances, the core focus of these subsidiaries is providing in-house services to companies within the Enstar group. These internal fees are predominantly eliminated upon consolidation of our results of operations.

Other Income:

Three and Six Months Ended June 30: Other income for the three months ended June 30, 2017 increased from $2.0 million for the three months ended June 30, 2016 to $10.8 million, an increase of $8.7 million. Other income for the six months ended June 30, 2017 increased from $3.8 million for the six months ended June 30, 2016 to $22.7 million, an increase of $18.9 million.This primarily included earnings from the equity method investment in KaylaRe, and also included a gain on the sale of SeaBright Insurance Company ("SeaBright"). SeaBright contained only insurance licenses at the time of sale, having previously reinsured all of its run-off liabilities into another Enstar entity.

Table of Contents

Net Incurred Losses and LAE:

The following table shows the components of net incurred losses and LAE for the Non-life-Run-off segment for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Periods | Current Period | Total | Prior Periods | Current Period | Total |
| | (in thousands of U.S. dollars) | | | | | |
| Net losses paid | $144,282 | $ 130 | $144,412 | $140,998 | $2,058 | $143,056 |
| Net change in case and LAE reserves (1) | (127,393 ) | (16 ) | (127,409 ) | (74,832 ) | 272 | (74,560 ) |
| Net change in IBNR reserves (1) | (62,604 ) | 293 | (62,311 ) | (101,240 ) | (1,596 ) | (102,836 ) |
| Amortization of deferred charge | 5,130 | — | 5,130 | 5,734 | — | 5,734 |
| Increase (reduction) in estimates of net ultimate losses | (40,585 ) | 407 | (40,178 ) | (29,340 ) | 734 | (28,606 ) |
| Increase (reduction) in provisions for bad debt | (735 ) | — | (735 ) | (5,184 ) | — | (5,184 ) |
| Increase (reduction) in provisions for unallocated LAE | (10,989 ) | 54 | (10,935 ) | (6,355 ) | (216 ) | (6,571 ) |
| Amortization of fair value adjustments | 678 | — | 678 | 15,671 | — | 15,671 |
| Changes in fair value - fair value option | (13,232 ) | — | (13,232 ) | $— | $— | $— |
| Net incurred losses and LAE | $(64,863 ) | $ 461 | $(64,402 ) | $(25,208 ) | $518 | $(24,690 ) |

(1) Net change in case and LAE reserves comprises the movement during the period in specific case reserve liabilities as a result of claims settlements or changes advised to us by our policyholders and attorneys, less changes in case reserves recoverable advised by us to our reinsurers as a result of the settlement or movement of assumed claims. Net change in IBNR represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Periods | Current Period | Total | Prior Periods | Current Period | Total |
| | (in thousands of U.S. dollars) | | | | | |
| Net losses paid | $300,613 | $371 | $300,984 | $271,321 | $4,048 | $275,369 |
| Net change in case and LAE reserves (1) | (210,527 ) | (16 ) | (210,543 ) | (183,801 ) | 456 | (183,345 ) |
| Net change in IBNR reserves (1) | (141,682 ) | 724 | (140,958 ) | (141,753 ) | 1,854 | (139,899 ) |
| Amortization of deferred charge | 6,076 | — | 6,076 | 7,345 | — | 7,345 |
| Increase (reduction) in estimates of net ultimate losses | (45,520 ) | 1,079 | (44,441 ) | (46,888 ) | 6,358 | (40,530 ) |
| Increase (reduction) in provisions for bad debt | (735 ) | — | (735 ) | (6,630 ) | — | (6,630 ) |
| Increase (reduction) in provisions for unallocated LAE | (25,354 ) | 96 | (25,258 ) | (14,590 ) | 229 | (14,361 ) |
| Amortization of fair value adjustments | 2,025 | — | 2,025 | 13,277 | — | 13,277 |
| Changes in fair value - fair value option | 1,250 | $— | 1,250 | $— | $— | $— |
| Net incurred losses and LAE | $(68,334 ) | $1,175 | $(67,159 ) | $(54,831 ) | $6,587 | $(48,244 ) |

(1) Net change in case and LAE reserves comprises the movement during the period in specific case reserve liabilities as a result of claims settlements or changes advised to us by our policyholders and attorneys, less changes in case reserves recoverable advised by us to our reinsurers as a result of the settlement or movement of assumed claims. Net change in IBNR represents the gross change in our actuarial estimates of IBNR, less amounts recoverable.

Three Months Ended June 30: The reduction in net incurred losses and LAE for the three months ended June 30, 2017 of $64.4 million included net incurred losses and LAE of $0.5 million related to current period net earned premium, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $0.5 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $64.9 million, which was primarily attributable to a reduction in estimates of net ultimate losses of $40.6 million, a reduction in provisions for unallocated LAE of $11.0 million, relating to 2017 run-off activity, and a decrease in fair value of $13.2 million related to our assumed reinsurance agreements with RSA and QBE and for which we have elected the fair value option. The reduction in provisions for bad debt of $0.7 million was a result of the collection of certain reinsurance recoverables against which provisions for bad debt had been provided in earlier periods.

The reduction in net incurred losses and LAE for the three months ended June 30, 2016 of $24.7 million included net incurred losses and LAE of $0.5 million related to current period net premiums earned of $0.5 million, primarily related to the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $0.5 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $25.2 million, which was attributable to a reduction in estimates of net ultimate losses of $29.3 million, a reduction in provisions for bad debt of $5.2 million and a reduction in provisions for unallocated LAE of $6.4 million, relating to 2016 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired of $15.7 million. The reduction in provisions for bad debt of $5.2 million was a result of the collection of certain reinsurance recoverables against which provisions for bad debt had been provided in earlier periods.

Six Months Ended June 30: The reduction in net incurred losses and LAE for the six months ended June 30, 2017 of $67.2 million included net incurred losses and LAE of $1.2 million related to current period net earned premium, related to the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $1.2 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $68.3 million, which was attributable to a reduction in estimates of net ultimate losses of $45.5 million, a reduction in provisions for bad debt of $0.7 million and a reduction in provisions for unallocated LAE of $25.4 million, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired of $2.0 million and an increase in fair value of $1.3 million related to our assumed retroactive reinsurance agreements with RSA and QBE completed during the quarter and for which we have elected the fair value option. The reduction in provisions for bad debt of $0.7 million was a result of the collection of certain reinsurance recoverables against which provisions for bad debt had been provided in earlier periods.

The reduction in net incurred losses and LAE for the six months ended June 30, 2016 of $48.2 million included net incurred losses and LAE of $6.6 million related to current period net premiums earned of $5.0 million, primarily related to the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $6.6 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $54.8 million, which was attributable to a reduction in estimates of net ultimate losses of $46.9 million, a reduction in provisions for bad debt of $6.6 million and a reduction in provisions for unallocated LAE of $14.6 million, relating to 2016 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired of $13.3 million. The reduction in provisions for bad debt of $6.6 million was a result of the collection of certain reinsurance recoverables against which provisions for bad debt had been provided in earlier periods.

Acquisition Costs:

Three and Six Months Ended June 30: Acquisition costs were $(0.9) million and $(0.1) million for the three months ended June 30, 2017 and 2016, respectively, and $(0.5) million and $1.9 million for the six months ended June 30, 2017 and 2016. Acquisition costs for the three and six months ended June 30, 2017 primarily related to net premiums earned on the Sussex and Alpha business that was placed into run-off.

General and Administrative Expenses:

Three and Six Months Ended June 30: General and administrative expenses were $63.3 million and $61.4 million for the three months ended June 30, 2017 and 2016, respectively, and $123.0 million and $119.6 million for the six months ended June 30, 2017 and 2016, respectively. The increase in general and administrative expenses was primarily related to expenses incurred in relation to significant new business acquired in 2017 and higher incentive compensation accruals in line with the increase in net earnings.

Interest Expense:

Three and Six Months Ended June 30: Interest expense was $7.6 million and $6.0 million for the three months ended June 30, 2017 and 2016, respectively, and $14.3 million and $11.5 million for the six months ended June 30, 2017 and 2016, respectively. The increase in interest expense was primarily due to the issuance of Senior Notes in the first quarter of 2017.

Table of Contents

Net Foreign Exchange Losses

Three and Six Months Ended June 30: Net foreign exchange losses (gains) were $1.9 million and $(3.1) million for the three months ended June 30, 2017 and 2016, respectively. We recorded net foreign exchange losses of $2.7 million compared with net foreign exchange gains of $(2.2) million for the six months ended June 30, 2017 and 2016, respectively. The net foreign exchange losses for the six months ended June 30, 2017 and 2016 arose primarily as a result of the holding of surplus Euro and British pound assets at a time when the U.S. dollar depreciated against these currencies.

Noncontrolling Interest:

Three and Six Months Ended June 30: Noncontrolling interest in earnings of our Non-life Run-off segment was $(2.6) million and $(2.4) million for the three months ended June 30, 2017 and 2016, respectively, and $(10.6) million and $(3.1) million for the six months ended June 30, 2017 and 2016, respectively. The number of subsidiaries in this segment with a noncontrolling interest remained unchanged at two as at June 30, 2017 and June 30, 2016.

Table of Contents

Atrium Segment

The Atrium segment includes Atrium 5 Ltd. ("Atrium 5"), AUL, and Northshore Holdings Limited ("Holding Company"). Atrium 5 results represent its proportionate share of the results of Syndicate 609 for which it provides 25% of the underwriting capacity and capital. AUL results largely represent fees charged to Syndicate 609 and a 20% profit commission on the results of the syndicate less general and administrative expenses incurred in managing the syndicate. AUL also includes other Atrium Group non-syndicate fee income and associated expenses. The Holding Company results include the amortization of intangible assets that were fair valued upon acquisition.

The following is a discussion and analysis of the results of operations for our Atrium segment for the three and six months ended June 30, 2017 and 2016, which are summarized below.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| INCOME | | | | | | |
| Net premiums earned | $32,380 | $31,758 | $ 622 | $64,600 | $63,669 | $ 931 |
| Fees and commission income | 8,070 | 6,378 | 1,692 | 11,442 | 10,210 | 1,232 |
| Net investment income | 861 | 635 | 226 | 1,985 | 1,189 | 796 |
| Net realized and unrealized gains | 474 | 68 | 406 | 892 | 108 | 784 |
| Other income | 50 | 65 | (15) | 119 | 99 | 20 |
| | 41,835 | 38,904 | 2,931 | 79,038 | 75,275 | 3,763 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | 8,189 | 17,133 | (8,944) | 20,677 | 32,722 | (12,045) |
| Acquisition costs | 12,057 | 11,240 | 817 | 22,829 | 22,327 | 502 |
| General and administrative expenses | 9,950 | 6,629 | 3,321 | 17,161 | 13,037 | 4,124 |
| Interest expense | 265 | — | 265 | 536 | — | 536 |
| Net foreign exchange losses | 3,480 | 256 | 3,224 | 4,312 | 2,071 | 2,241 |
| | 33,941 | 35,258 | (1,317) | 65,515 | 70,157 | (4,642) |
| EARNINGS BEFORE INCOME TAXES | 7,894 | 3,646 | 4,248 | 13,523 | 5,118 | 8,405 |
| INCOME TAXES | (368) | (580) | 212 | (724) | (1,258) | 534 |
| NET EARNINGS | 7,526 | 3,066 | 4,460 | 12,799 | 3,860 | 8,939 |
| Less: Net earnings attributable to noncontrolling interest | (3,087) | (1,258) | (1,829) | (5,250) | (1,584) | (3,666) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $4,439 | $1,808 | $ 2,631 | $7,549 | $2,276 | $ 5,273 |

Overall Results

An analysis of the components of the segment's net earnings is shown below, after the attribution of net earnings to noncontrolling interest.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Atrium 5 | $1,259 | $415 | $ 844 | $4,249 | $742 | $ 3,507 |
| AUL | 3,498 | 1,598 | 1,900 | 4,096 | 2,129 | 1,967 |
| Atrium Total | 4,757 | 2,013 | 2,744 | 8,345 | 2,871 | 5,474 |
| Holding Company | (318) | (205) | (113) | (796) | (595) | (201) |
| | $4,439 | $1,808 | $ 2,631 | $7,549 | $2,276 | $ 5,273 |

NET EARNINGS ATTRIBUTABLE TO ENSTAR
GROUP LIMITED

67

Table of Contents

In evaluating the underwriting performance of the Atrium segment, we consider the insurance ratios of Atrium 5, which is the active underwriting component of the segment and excludes AUL and the Holding Company. Atrium 5's insurance ratios are shown below.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | (Favorable) Unfavorable | 2017 | 2016 | (Favorable) Unfavorable |
| Loss ratio [1] | 25.0% | 53.6 % | (28.6 )% | 31.8% | 51.2% | (19.4 )% |
| Acquisition cost ratio [1] | 37.3% | 34.4 % | 2.9 % | 35.4% | 34.6% | 0.8 % |
| Other operating expense ratio [1] | 18.7% | 12.1 % | 6.6 % | 15.0% | 11.5% | 3.5 % |
| Combined ratio [1] | 81.0% | 100.1% | (19.1 )% | 82.2% | 97.3% | (15.1 )% |

[1] Refer to "Non-GAAP Financial Measures" for a description of how these ratios are calculated. The ratios are based upon the following amounts for Atrium 5, which exclude amounts for AUL and the Holding Company, for the three months ended June 30, 2017 and 2016, respectively: net premiums earned of $32,380 and $31,758, net incurred losses and LAE of $8,101 and $17,020, acquisition costs of $12,077 and $10,935, and other operating expenses of $6,045 and $3,830. The ratios are based upon the following amounts for Atrium 5, which exclude amounts for AUL and the Holding Company, for the six months ended June 30, 2017 and 2016, respectively: net premiums earned of $64,600 and $63,669, net incurred losses and LAE of $20,557 and $32,570, acquisition costs of $22,849 and $22,020, and other operating expenses of $9,720 and $7,295.

The lower combined ratio of Atrium 5 for the three and six months ended June 30, 2017 as compared to the three and six months ended June 30, 2016 was due to decreases in the net loss ratio. This was primarily attributable to favorable current year loss development in the three and six months ended June 30, 2017 as compared to the three and six months ended June 30, 2016.

Holding Company expenses are included below under "General and Administrative Expenses".

Investment results are separately discussed below in "Investments."

Gross Premiums Written:

The following table provides gross premiums written by line of business for the Atrium segment for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Marine | $4,328 | $5,832 | $ (1,504 ) | $10,184 | $10,463 | $ (279 ) |
| Property and Casualty Binding Authorities | 9,518 | 9,297 | 221 | 19,378 | 18,976 | 402 |
| Upstream Energy | 1,470 | 3,611 | (2,141 ) | 4,594 | 6,484 | (1,890 ) |
| Reinsurance | 4,150 | 3,646 | 504 | 13,379 | 10,029 | 3,350 |
| Accident and Health | 3,528 | 3,336 | 192 | 8,725 | 7,603 | 1,122 |
| Non-Marine Direct and Facultative | 3,881 | 4,651 | (770 ) | 7,399 | 8,566 | (1,167 ) |
| Liability | 5,846 | 4,786 | 1,060 | 11,586 | 10,055 | 1,531 |
| Aviation | 1,039 | 1,898 | (859 ) | 3,956 | 5,350 | (1,394 ) |
| Terrorism[1] | 805 | 724 | 81 | 1,777 | 1,773 | 4 |
| Total | $34,565 | $37,781 | $ (3,216 ) | $80,978 | $79,299 | $ 1,679 |

(1) Terrorism previously included war-related premiums, which have been reclassified to the marine and aviation lines. For the three months ended June 30, 2016, gross written premiums of $0.6 million and $1.4 million were reclassified to the marine and aviation lines, respectively. For the six months ended June 30, 2016, gross written premiums of $1.1 million and $2.1 million were reclassified to the marine and aviation lines, respectively.

See below for a discussion of the drivers of the change in net premiums written and earned for the three and six months ended June 30, 2017 and 2016.

Table of Contents

Net Premiums Earned:

The following table provides net premiums earned by line of business for the Atrium segment for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Marine | $3,987 | $4,733 | $ (746 ) | $7,496 | $9,091 | $ (1,595 ) |
| Property and Casualty Binding Authorities | 9,425 | 8,297 | 1,128 | 18,293 | 16,807 | 1,486 |
| Upstream Energy | 866 | 2,571 | (1,705 ) | 2,962 | 4,687 | (1,725 ) |
| Reinsurance | 3,928 | 3,173 | 755 | 7,645 | 5,953 | 1,692 |
| Accident and Health | 3,811 | 3,313 | 498 | 7,694 | 6,468 | 1,226 |
| Non-Marine Direct and Facultative | 3,163 | 3,108 | 55 | 6,201 | 6,674 | (473 ) |
| Liability | 5,774 | 4,035 | 1,739 | 10,643 | 8,948 | 1,695 |
| Aviation | 812 | 1,736 | (924 ) | 2,286 | 3,477 | (1,191 ) |
| Terrorism [1] | 614 | 792 | (178 ) | 1,380 | 1,564 | (184 ) |
| Total | $32,380 | $31,758 | $ 622 | $64,600 | $63,669 | $ 931 |

[1] Terrorism previously included war-related premiums, which have been reclassified to aviation and marine lines. For the three months ended June 30, 2016, net earned premiums of $0.7 million and $0.6 million were reclassified to the marine and aviation lines, respectively. For the six months ended June 30, 2016, net earned premiums of $1.1 million and $1.1 million were reclassified to the marine and aviation lines, respectively.

Three and Six Months Ended June 30: Net premiums earned for the Atrium segment were $32.4 million and $31.8 million for the three months ended June 30, 2017 and 2016, respectively, and $64.6 million and $63.7 million for six months June 30, 2017 and 2016, respectively. The increase in the reinsurance and liability lines of business was primarily due to new business written by underwriters hired in property reinsurance and international professional liability, respectively. We are seeing continued pressure on premium rates and terms and conditions due to overcapacity in many markets for insurable risks. We continue to focus on risk selection and underwriting for profitability.

Fees and Commission Income:

Three and Six Months Ended June 30: Fees and commission income were $8.1 million and $6.4 million for the three months ended June 30, 2017 and 2016, respectively, and $11.4 million and $10.2 million for six months June 30, 2017 and 2016, respectively. The fees primarily represent profit commission fees earned by us in relation to AUL's management of Syndicate 609 and other underwriting consortiums.

Net Incurred Losses and LAE:

Three and Six Months Ended June 30: Net incurred losses and LAE for the three months ended June 30, 2017 and 2016 were $8.2 million and $17.1 million, respectively, and $20.7 million and $32.7 million for six months June 30, 2017 and 2016, respectively. Net favorable prior year loss development for the three months ended June 30, 2017 and 2016 was $6.7 million and $3.4 million, respectively, and $8.6 million and $3.9 million for six months June 30, 2017 and 2016, respectively. Net favorable prior year loss development in the three months ended June 30, 2017 and 2016, was spread across most lines of business. Excluding prior year loss development, net incurred losses and LAE for the three months ended June 30, 2017 and 2016 were $14.9 million and $20.6 million, respectively. Excluding prior year loss development, net incurred losses and LAE for the six months ended June 30, 2017 and 2016 were $29.3 million and $36.6 million, respectively. The decrease in net incurred losses and LAE for the three and six months ended June 30, 2017 compared with 2016, excluding prior year loss development, was due to the large losses in 2016, particularly in the war, terrorism and aviation lines of business, compared to a lower level of losses in 2017.

Acquisition Costs:

Three and Six Months Ended June 30: Acquisition costs were $12.1 million and $11.2 million for the three months ended June 30, 2017 and 2016, respectively, and $22.8 million and $22.3 million for the six months ended June 30, 2017 and 2016, respectively. The Atrium acquisition cost ratios for the three months ended June 30, 2017

Table of Contents

and 2016 were 37.3% and 34.4%, respectively, and 35.4% and 34.6% for the six months June 30, 2017 and 2016, respectively. The increase for the three and six months ended June 30, 2017 was primarily due to the growth of the binding authorities class which attracts higher acquisition costs.

General and Administrative Expenses:

Three and Six Months Ended June 30: General and administrative expenses for the Atrium segment were $10.0 million and $6.6 million for the three months ended June 30, 2017 and 2016, respectively. General and administrative expenses for the Atrium segment were $17.2 million and $13.0 million for the six months ended June 30, 2017 and 2016, respectively. The increase of $4.2 million was primarily due to higher bonus accruals relating to higher net earnings in the six months ended June 30, 2017 as compared to the six months ended June 30, 2016, and higher professional fees in 2017.

Net Foreign Exchange Losses:

Three and Six Months Ended June 30: Net foreign exchange losses for the Atrium segment were $3.5 million and $0.3 million for the three months ended June 30, 2017 and 2016, respectively. Net foreign exchange losses for the Atrium segment were $4.3 million and $2.1 million for the six months ended June 30, 2017 and 2016, respectively. The foreign exchange losses for the three and six months ended June 30, 2017 were primarily due to the translation of non-functional currency liabilities which is substantially offset by foreign exchange on available-for-sale investments recorded in accumulated other comprehensive income.

Noncontrolling Interest:

Three and Six Months Ended June 30: Noncontrolling interest in earnings of the Atrium segment was $3.1 million and $1.3 million for the three months ended June 30, 2017 and 2016, respectively. Noncontrolling interest in earnings of the Atrium segment was $5.3 million and $1.6 million for the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, Trident and Dowling had a combined 41.03% noncontrolling interest in the Atrium segment.

StarStone Segment

The results of our StarStone segment include the results of StarStone Insurance Bermuda Limited and its subsidiaries ("StarStone") and StarStone Specialty Holdings Limited ("Holding Company"). StarStone results represent its active underwriting operations. The Holding Company's results include the amortization of fair value adjustments such as for intangible assets that were fair valued upon acquisition, and other expenses incurred.

The following is a discussion and analysis of the results of operations for the StarStone segment for the three and six months ended June 30, 2017 and 2016, which are summarized below.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| INCOME | | | | | | |
| Net premiums earned | $118,551 | $171,035 | $(52,484) | $233,959 | $325,117 | $(91,158) |
| Fee and commission income | — | — | — | 1,166 | — | 1,166 |
| Net investment income | 7,189 | 5,753 | 1,436 | 12,638 | 11,033 | 1,605 |
| Net realized and unrealized gains | 7,209 | 8,021 | (812) | 13,908 | 22,370 | (8,462) |
| Other income | 33 | 1,584 | (1,551) | 79 | 1,595 | (1,516) |
| | 132,982 | 186,393 | (53,411) | 261,750 | 360,115 | (98,365) |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | 65,833 | 104,019 | (38,186) | 133,994 | 195,202 | (61,208) |
| Acquisition costs | 17,698 | 32,518 | (14,820) | 28,312 | 64,578 | (36,266) |
| General and administrative expenses | 32,950 | 31,311 | 1,639 | 66,971 | 61,466 | 5,505 |
| Interest expense | 644 | — | 644 | 1,266 | — | 1,266 |
| Net foreign exchange losses (gains) | 815 | 1,027 | (212) | 2,708 | (272) | 2,980 |
| | 117,940 | 168,875 | (50,935) | 233,251 | 320,974 | (87,723) |
| EARNINGS BEFORE INCOME TAXES | 15,042 | 17,518 | (2,476) | 28,499 | 39,141 | (10,642) |
| INCOME TAXES | (679) | (3,970) | 3,291 | 3,570 | (5,988) | 9,558 |
| NET EARNINGS | 14,363 | 13,548 | 815 | 32,069 | 33,153 | (1,084) |
| Less: Net earnings attributable to noncontrolling interest | (5,834) | (5,559) | (275) | (13,087) | (13,603) | 516 |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $8,529 | $7,989 | $540 | $18,982 | $19,550 | $(568) |

Overall Results

An analysis of the components of the segment's net earnings is shown below, after the attribution of net earnings to noncontrolling interest.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| StarStone[(1)] | $8,537 | $7,712 | $ 825 | $18,941 | $18,975 | $(34) |
| Holding Company | (8) | 277 | (285) | 41 | 575 | (534) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $8,529 | $7,989 | $ 540 | $18,982 | $19,550 | $(568) |

(1) StarStone's net earnings before noncontrolling interest were $14.4 million and $32.0 million for three and six months ended June 30, 2017, respectively, and $13.1 million and $32.2 million for the three and six months ended June 30, 2016, respectively.

Table of Contents

Three Months Ended June 30: Net earnings were $8.5 million and $8.0 million for the three months ended June 30, 2017 and 2016, respectively, an increase of $0.5 million. This was primarily attributable to an increase in investment results of $0.6 million. In addition, the decreases in net premiums earned, net incurred losses and LAE and acquisition costs reflect the impact of the 35% whole account quota share reinsurance agreement with KaylaRe.

Six Months Ended June 30: Net earnings were $19.0 million and $19.6 million for the six months ended June 30, 2017 and 2016, respectively, a decrease of $(0.6) million. This was primarily attributable to a decrease in investment results and other income, an increase in interest expense and net foreign exchange losses, partially offset by a tax benefit in 2017 compared to a tax expense in 2016. In addition, the decreases in net premiums earned, net incurred losses and LAE and acquisition costs reflect the impact of the 35% whole account quota share reinsurance agreement with KaylaRe.

In evaluating the underwriting performance of the StarStone segment, we consider the insurance ratios of StarStone, which is the active underwriting component of the segment and excludes the Holding Company. StarStone's insurance ratios are shown below.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | (Favorable) Unfavorable | 2017 | 2016 | (Favorable) Unfavorable |
| Loss ratio (1) | 55.6% | 60.9% | (5.3 )% | 57.5% | 60.6% | (3.1 )% |
| Acquisition cost ratio (1) | 14.9% | 19.0% | (4.1 )% | 12.1% | 19.9% | (7.8 )% |
| Other operating expense ratio (1) | 27.8% | 18.3% | 9.5 % | 28.6% | 18.5% | 10.1 % |
| Combined ratio (1) | 98.3% | 98.2% | 0.1 % | 98.2% | 99.0% | (0.8 )% |

(1) Refer to "Non-GAAP Financial Measures" for a description of how these ratios are calculated. The ratios are based upon the following amounts for StarStone, which exclude Holding Company amounts, for the three months ended June 30, 2017 and 2016, respectively: net premiums earned of $118,564 and $171,172, net incurred losses and LAE of $65,946 and $104,232, acquisition costs of $17,698 and $32,518, and other operating expenses of $32,982 and $31,390. The ratios are based upon the following amounts for StarStone, which exclude Holding Company amounts, for the six months ended June 30, 2017 and 2016, respectively: net premiums earned of $234,319 and $324,669, net incurred losses and LAE of $134,629 and $196,660, acquisition costs of $28,312 and $64,578, and other operating expenses of $66,973 and $60,121.

Three Months Ended June 30: The combined ratio was relatively consistent for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. The reduction in the loss and acquisition cost ratios and the increase in the other operating expense ratio were primarily related to the 35% whole account quota share reinsurance arrangement with KaylaRe, which covers all business written during underwriting years 2016 and 2017. The ceding commission received from KaylaRe decreased the acquisition cost ratio. The other operating expense ratio increased significantly primarily due to a similar level of expenses on lower net premiums earned after the reinsurance cession to KaylaRe.

Six Months Ended June 30: The combined ratio improved by 0.8% for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The loss ratio and the acquisition ratio improved as a result of the 35% whole account quota share reinsurance arrangement with KaylaRe, which covers all business written during underwriting years 2016 and 2017. The loss ratio also improved based on mix of business written and benefiting from lower premium rates on reinsurance premium ceded. The other operating expense ratio increased significantly primarily due to a similar level of expenses on lower net premiums earned after the reinsurance cession to KaylaRe, and partially due to an increase in general and administrative expenses.

The Holding Company result primarily includes general and administrative expenses related to the amortization of the definite-lived intangible assets.

Investment results are separately discussed below in "Investments."

Table of Contents

Gross Premiums Written:

The following table provides gross premiums written by line of business for the StarStone segment for the three and six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Casualty | $71,036 | $66,229 | $ 4,807 | $138,067 | $133,541 | $ 4,526 |
| Marine | 49,893 | 42,987 | 6,906 | 125,645 | 112,364 | 13,281 |
| Property | 49,497 | 61,980 | (12,483 ) | 99,754 | 103,978 | (4,224 ) |
| Aerospace | 17,579 | 14,421 | 3,158 | 26,906 | 25,876 | 1,030 |
| Workers' Compensation | 36,559 | 37,751 | (1,192 ) | 60,728 | 64,653 | (3,925 ) |
| Total | $224,564 | $223,368 | $ 1,196 | $451,100 | $440,412 | $ 10,688 |

Three Months Ended June 30: Gross premiums written were $224.6 million and $223.4 million for the three months ended June 30, 2017 and 2016, respectively, an increase of $1.2 million. The marine and casualty lines of business increased by $6.9 million and $4.8 million, respectively, primarily attributable to additional business written in the U.S. and Europe. The property line of business decreased due to the timing of contract renewals, primarily relating to start dates on construction business.

Six Months Ended June 30: Gross premiums written were $451.1 million and $440.4 million for the six months ended June 30, 2017 and 2016, respectively, an increase of $10.7 million primarily attributable to the additional Marine business written in the U.S. and Europe.

Net Premiums Earned:

The following table provides net premiums earned by line of business for the StarStone segment for the six months ended June 30, 2017 and 2016:

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Casualty | $44,127 | $60,341 | $(16,214 ) | $79,836 | $108,750 | $(28,914 ) |
| Marine | 33,273 | 40,246 | (6,973 ) | 60,583 | 74,235 | (13,652 ) |
| Property | 21,646 | 32,049 | (10,403 ) | 49,366 | 66,140 | (16,774 ) |
| Aerospace | 4,847 | 16,207 | (11,360 ) | 18,320 | 33,614 | (15,294 ) |
| Workers' Compensation | 14,658 | 22,192 | (7,534 ) | 25,854 | 42,378 | (16,524 ) |
| Total | $118,551 | $171,035 | $(52,484 ) | $233,959 | $325,117 | $(91,158 ) |

Three Months Ended June 30: Net premiums earned for the StarStone segment for the three months ended June 30, 2017 decreased from 2016 by $52.5 million to $118.6 million. The decrease was attributable to the 35% whole account quota share reinsurance cession to KaylaRe which covers all business written during underwriting years 2016 and 2017. Excluding the impact of the reinsurance cession to KaylaRe, net premiums earned increased across most lines, primarily Marine and Casualty.

Six Months Ended June 30: Net premiums earned for the StarStone segment for the six months ended June 30, 2017 decreased from 2016 by $91.2 million to $234.0 million. The decrease across all lines of business was largely attributable to the KaylaRe 35% whole account quota share noted above.

Table of Contents

Net Incurred Losses and LAE:
Three Months Ended June 30: Net incurred losses and LAE for the three months ended June 30, 2017 and 2016 were $65.8 million and $104.0 million, respectively, a decrease of $38.2 million. The decrease was primarily attributable to the reinsurance cession to KaylaRe. Net favorable prior year loss development for the three months ended June 30, 2017 and 2016 was $0.2 million and $1.5 million, respectively. The loss ratio for the three months ended June 30, 2017 decreased by 5.3% to 55.6%, driven by mix of business and ceded reinsurance.
Six Months Ended June 30: Net incurred losses and LAE for the six months ended June 30, 2017 and 2016 were $134.0 million and $195.2 million, respectively, a decrease of $61.2 million. The decrease was primarily attributable to the reinsurance cession to KaylaRe. Net favorable prior year loss development for the six months ended June 30, 2017 and 2016 was $2.5 million and $3.5 million, respectively. The loss ratio for the six months ended June 30, 2017 decreased by 3.1% to 57.5%, driven by mix of business and ceded reinsurance.
Acquisition Costs:
Three Months Ended June 30: Acquisition costs were $17.7 million and $32.5 million for the three months ended June 30, 2017 and 2016, respectively, a decrease of $14.8 million. The acquisition cost ratios for the three months ended June 30, 2017 and 2016 were 14.9% and 19.0%, respectively, a decrease of 4.1% primarily due to the ceding commission earned on the KaylaRe quota share reinsurance contract.
Six Months Ended June 30: Acquisition costs were $28.3 million and $64.6 million for the six months ended June 30, 2017 and 2016, respectively, a decrease of $36.3 million. The acquisition cost ratios for the six months ended June 30, 2017 and 2016 were 12.1% and 19.9%, respectively, a decrease of 7.8% primarily due to the ceding commission earned on the KaylaRe quota share reinsurance contract.
General and Administrative Expenses:
Three Months Ended June 30: General and administrative expenses for the three months ended June 30, 2017 and 2016 were $33.0 million and $31.3 million, respectively. The increase of $1.6 million for the three months ended June 30, 2017 was primarily due to an increase in compensation costs in respect of additional headcount for our growth strategies in certain lines of business.
Six Months Ended June 30: General and administrative expenses for the six months ended June 30, 2017 and 2016 were $67.0 million and $61.5 million, respectively. The increase of $5.5 million for the six months ended June 30, 2017 was primarily due to an increase in compensation costs in respect of additional headcount for our growth strategies in certain lines of business, and the related costs associated with setting up new business operations.
Noncontrolling Interest:
Three Months Ended June 30: Noncontrolling interest in earnings of the StarStone segment was $5.8 million and $5.6 million for the three months ended June 30, 2017 and 2016, respectively. The increase was due to higher net earnings before noncontrolling interest for the three months ended June 30, 2017 compared with the three months ended June 30, 2016. As of June 30, 2017 and 2016, Trident and Dowling had a combined 41.03% noncontrolling interest in the StarStone segment.
Six Months Ended June 30: Noncontrolling interest in earnings of the StarStone segment was $13.1 million and $13.6 million for the six months ended June 30, 2017 and 2016, respectively. The decrease was due to lower net earnings before noncontrolling interest for the six months ended June 30, 2017 compared with the six months ended June 30, 2016.

Table of Contents

Life and Annuities Segment

For our Life and Annuities segment, our run-off strategy differs from the non-life run-off business, in particular because we have limited ability to shorten the duration of the liabilities in this business through early claims settlement, commutations or policy buy-backs. Instead, we hold the policies associated with the life and annuities business to their natural maturity or lapse and pay claims as they become due. The presentation of the results in this segment reflect the classification of Pavonia as discontinued operations and held-for-sale, and Laguna as held-for-sale with its results and the loss on sale of Laguna reflected as continuing operations. Following the sales of Pavonia and Laguna, our continuing life business will comprise of Alpha term life products and the life settlements businesses.

The following is a discussion and analysis of our results of operations for our Life and Annuities segment for the three and six months ended June 30, 2017 and 2016, which are summarized below.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| INCOME | | | | | | |
| Net premiums earned | $1,275 | $1,440 | $(165) | $2,469 | $2,899 | $(430) |
| Net investment income | 3,019 | 1,822 | 1,197 | 10,353 | 10,460 | (107) |
| Net realized and unrealized gains (losses) | (6,362) | 253 | (6,615) | (6,518) | 751 | (7,269) |
| Other income | 4 | (396) | 400 | 159 | 169 | (10) |
| | (2,064) | 3,119 | (5,183) | 6,463 | 14,279 | (7,816) |
| EXPENSES | | | | | | |
| Life and annuity policy benefits | 4,289 | (1,613) | 5,902 | 3,988 | (1,455) | 5,443 |
| Acquisition costs | 150 | 162 | (12) | 581 | 328 | 253 |
| General and administrative expenses | 1,871 | 1,551 | 320 | 3,353 | 3,522 | (169) |
| Interest expense | 242 | 269 | (27) | 433 | 604 | (171) |
| Net foreign exchange losses | 948 | (43) | 991 | 1,153 | 333 | 820 |
| Loss on sale of subsidiary | 9,609 | — | 9,609 | 9,609 | — | 9,609 |
| | 17,109 | 326 | 7,174 | 19,117 | 3,332 | 6,176 |
| EARNINGS (LOSSES) BEFORE INCOME TAXES | (19,173) | 2,793 | (21,966) | (12,654) | 10,947 | (23,601) |
| INCOME TAXES | (5) | (14) | 9 | (9) | (14) | 5 |
| NET EARNINGS (LOSSES) FROM CONTINUING OPERATIONS | (19,178) | 2,779 | (21,957) | (12,663) | 10,933 | (23,596) |
| NET EARNINGS (LOSSES) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE | (4,871) | 2,378 | (7,249) | (4,500) | 2,583 | (7,083) |
| NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $(24,049) | $5,157 | $(29,206) | $(17,163) | $13,516 | $(30,679) |

Overall Results:

Three and Six Months Ended June 30: Net earnings (losses) were ($24.0) million and $5.2 million for the three months ended June 30, 2017 and 2016, respectively. Net earnings (losses) were ($17.2) million and $13.5 million for the six months ended June 30, 2017 and 2016, respectively. The net losses in this segment for the three and six months ended June 30, 2017 were primarily due to an accrual for the loss on sale of Laguna of ($9.6) million and impairments on life settlements as discussed below, as well as operating losses in Pavonia and Alpha. The losses in Pavonia primarily related to term life products and are expected to be offset in the future by the expected gain recognizable upon the sale of the business which is expected to be completed in the third or fourth quarter of 2017. Further information regarding the businesses held-for-sale are included in Note 3 - "Held-For-Sale Businesses" included within Item 1 of this Quarterly Report on Form 10-Q. Our life settlements business contributed net earnings (losses)

Table of Contents

of ($4.2) million and $2.0 million for the three and six months ended June 30, 2017, respectively. The losses on life settlements for the three months ended June 30, 2017 included impairment charges of $6.3 million as a result of updated medical underwriting and increases in premiums. There was no change to our impairment methodology during the six months ended June 30, 2017.

Table of Contents

Investable Assets

We define investable assets as the sum of total investments, cash and cash equivalents, restricted cash and cash equivalents, and funds held. Investments consist primarily of investment grade, liquid, fixed maturity securities of short-to-medium duration, equities, and other investments. Cash and cash equivalents and restricted cash and cash equivalents is comprised mainly of cash, fixed deposits, and other highly liquid instruments such as commercial paper with maturities of less than three months at the time of acquisition and money market funds. Funds held primarily consists of investment grade, liquid, fixed maturity securities of short-to-medium duration. Assets held-for-sale are excluded from our definition of investable assets.

Investable assets were $9.7 billion as at June 30, 2017 as compared to $8.4 billion as at December 31, 2016, an increase of 15.5%. The increase was primarily due to the investments and funds held balance acquired in relation to the QBE and RSA transactions.

A description of our investment strategies is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Investments" in our Annual Report on Form 10-K for the year ended December 31, 2016. In addition, during the six months ended June 30, 2017, we have been implementing strategies to selectively increase the duration in certain investment portfolios.

Composition of Investment Portfolio By Asset Class

The following table summarizes the fair value and composition of our investment portfolio by asset class as at June 30, 2017 and December 31, 2016:

| | June 30, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | | | | Fair Value | | | |
| | Investment Grade [(1)] | Non-Investment Grade [(2)] | Total | % | Investment Grade [(1)] | Non-Investment Grade [(2)] | Total | % |
| | (in thousands of U.S. dollars) | | | | | | | |
| Fixed maturity and short-term investments, trading and available-for-sale | | | | | | | | |
| U.S. government & agency | $696,643 | $ — | $696,643 | 9.5 % | $852,984 | $ — | $852,984 | 14.1 % |
| Non-U.S. government | 914,224 | 910 | 915,134 | 12.5 % | 352,786 | — | 352,786 | 5.8 % |
| Corporate | 3,157,735 | 114,346 | 3,272,081 | 44.6 % | 2,385,295 | 160,682 | 2,545,977 | 42.2 % |
| Municipal | 94,669 | — | 94,669 | 1.3 % | 53,757 | — | 53,757 | 0.9 % |
| Residential mortgage-backed | 285,217 | 80,003 | 365,220 | 5.0 % | 373,957 | 98 | 374,055 | 6.2 % |
| Commercial mortgage-backed | 284,067 | 19,020 | 303,087 | 4.1 % | 199,827 | 17,385 | 217,212 | 3.6 % |
| Asset-backed | 469,015 | 84,615 | 553,630 | 7.6 % | 409,671 | 72,485 | 482,156 | 8.0 % |
| Total | 5,901,570 | 298,894 | 6,200,464 | 84.6 % | 4,628,277 | 250,650 | 4,878,927 | 80.8 % |
| | | | | | | | | |
| Equities | | | | | | | | |
| U.S. | | | 106,240 | 1.5 % | | | 95,047 | 1.6 % |
| Total | | | 106,240 | 1.5 % | | | 95,047 | 1.6 % |
| | | | | | | | | |
| Other investments | | | | | | | | |
| Private equity funds | | | 269,016 | 3.7 % | | | 300,529 | 5.0 % |
| Fixed income funds | | | 249,573 | 3.4 % | | | 249,023 | 4.1 % |
| Fixed income hedge funds | | | 70,900 | 1.0 % | | | 85,976 | 1.4 % |
| Equity funds | | | 230,720 | 3.1 % | | | 223,571 | 3.7 % |
| CLO equities | | | 56,805 | 0.8 % | | | 61,565 | 1.0 % |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| CLO equity funds | | | 13,050 | 0.2 | % | | | 15,440 | 0.3 | % |
| Other | | | 879 | — | % | | | 943 | — | % |
| Total | | | 890,943 | 12.2 | % | | | 937,047 | 15.5 | % |
| | | | | | | | | | | |
| Other investments | | | | | | | | | | |
| Life settlements | | | 127,777 | 1.7 | % | | | 129,474 | 2.1 | % |
| | | | | | | | | | | |
| Total investments | $5,901,570 | $ 298,894 | $7,325,424 | 100.0 | % | $4,628,277 | $ 250,650 | $6,040,495 | 100.0 | % |

(1) Investment Grade are securities with a rating of BBB- or higher.

77

Table of Contents

(2) Non-Investment Grade included non-rated securities with a fair value of $21.5 million and $28.1 million as at June 30, 2017 and December 31, 2016, respectively.

A description of our investment valuation processes is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2016 and "Note 6 - Fair Value Measurements" included within Item 1 of this Quarterly Report on Form 10-Q.

Composition of Funds Held - Directly Managed by Asset Class

The following table summarizes the fair value and composition of our funds held - directly managed portfolio by asset class as at June 30, 2017 and December 31, 2016:

| | June 30, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | | | | Fair Value | | | |
| | Investment Grade (1) | Non-Investment Grade | Total | % | Investment Grade (1) | Non-Investment Grade | Total | % |
| Fixed maturity investments: | | | | | | | | |
| U.S. government & agency | $52,548 | $ — | $52,548 | 4.4 % | $47,885 | $ — | $47,885 | 4.8 % |
| Non-U.S. government | 6,074 | — | 6,074 | 0.5 % | 5,961 | — | 5,961 | 0.6 % |
| Corporate | 778,757 | — | 778,757 | 64.6 % | 663,556 | — | 663,556 | 66.8 % |
| Municipal | 55,268 | — | 55,268 | 4.6 % | 38,927 | — | 38,927 | 3.9 % |
| Commercial mortgage-backed | 200,502 | — | 200,502 | 16.6 % | 151,395 | — | 151,395 | 15.2 % |
| Asset-backed | 96,395 | — | 96,395 | 8.0 % | 79,806 | — | 79,806 | 8.0 % |
| Total | 1,189,544 | — | 1,189,544 | 98.7 % | 987,530 | — | 987,530 | 99.3 % |
| Other assets | — | — | 16,048 | 1.3 % | — | — | 7,135 | 0.7 % |
| Total funds held - directly managed | $1,189,544 | $ — | $1,205,592 | 100.0 % | $987,530 | $ — | $994,665 | 100.0 % |

(1) Investment Grade are securities with a rating of BBB- or higher.

Composition of Investable Assets By Segment

Across all of our segments, we strive to structure our investments in a manner that recognizes our liquidity needs for future liabilities. In that regard, we attempt to correlate the maturity and duration of our investment portfolio to our general liability profile. If our liquidity needs or general liability profile unexpectedly change, we may adjust the structure of our investment portfolio to meet our revised expectations. The following tables summarize the composition of total invested assets by segment as at June 30, 2017 and December 31, 2016:

| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Total |
|---|---|---|---|---|---|
| | (in thousands of U.S. dollars) | | | | |
| June 30, 2017 | | | | | |
| Short-term investments, trading, at fair value | $268,526 | $8,628 | $50,441 | $— | $327,595 |
| Fixed maturities, trading, at fair value | 4,402,824 | 57,427 | 1,183,847 | — | 5,644,098 |
| Fixed maturities, available-for-sale, at fair value | 53 | 107,446 | — | 121,272 | 228,771 |
| Equities, trading, at fair value | 99,169 | 2,006 | 5,065 | — | 106,240 |
| Other investments, at fair value | 713,133 | 8,391 | 158,117 | 11,302 | 890,943 |
| Other investments, at cost | — | — | — | 128,296 | 128,296 |
| Total investments | 5,483,705 | 183,898 | 1,397,470 | 260,870 | 7,325,943 |
| Cash and cash equivalents | 776,764 | 48,920 | 253,065 | 26,002 | 1,104,751 |
| Funds held - directly managed | 1,205,592 | — | — | — | 1,205,592 |
| Funds held by reinsured companies | 47,511 | 24,548 | 12,014 | — | 84,073 |
| Total investable assets | $7,513,572 | $257,366 | $1,662,549 | $286,872 | $9,720,359 |

| | | | | | |
|---|---|---|---|---|---|
| Duration (in years) | 3.93 | 1.73 | 2.11 | 2.69 | 3.53 |
| Average Credit Rating | A+ | AA- | A | A+ | A+ |

Table of Contents

| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Total |
|---|---|---|---|---|---|
| | (in thousands of U.S. dollars) | | | | |
| December 31, 2016 | | | | | |
| Short-term investments, trading, at fair value | $201,188 | $7,938 | $6,160 | $7,632 | $222,918 |
| Short-term investments, available-for-sale, at fair value | — | 268 | — | — | 268 |
| Fixed maturities, trading, at fair value | 3,144,811 | 13,320 | 1,199,460 | 30,651 | 4,388,242 |
| Fixed maturities, available-for-sale, at fair value | 3,108 | 142,562 | — | 121,829 | 267,499 |
| Equities, trading, at fair value | 88,481 | — | 6,566 | — | 95,047 |
| Other investments, at fair value | 783,857 | — | 153,190 | — | 937,047 |
| Other investments, at cost | — | — | — | 131,651 | 131,651 |
| Total investments | 4,221,445 | 164,088 | 1,365,376 | 291,763 | 6,042,672 |
| Cash and cash equivalents | 916,900 | 83,548 | 295,341 | 22,856 | 1,318,645 |
| Funds held - directly managed | 994,665 | — | — | — | 994,665 |
| Funds held by reinsured companies | 48,525 | 22,883 | 10,665 | — | 82,073 |
| Total investable assets | $6,181,535 | $270,519 | $1,671,382 | $314,619 | $8,438,055 |
| Duration (in years) | 2.68 | 1.20 | 2.31 | 2.67 | 2.56 |
| Average Credit Rating | A+ | AA- | AA- | A+ | A+ |

Credit Quality and Maturity Profiles

As at June 30, 2017 and December 31, 2016, our investment portfolio had an average credit quality rating of A+. As at June 30, 2017 and December 31, 2016, our fixed maturity investments rated lower than BBB- comprised 3.8% and 3.7% of our total investment portfolio, respectively. A detailed schedule of average credit ratings by asset class as at June 30, 2017 is included in Note 4 - "Investments - Credit Ratings" and Note 5 - "Funds Held - Directly Managed - Credit Ratings" of our unaudited condensed consolidated financial statements within Item 1 of this Quarterly Report on Form 10-Q. Schedules of maturities by asset class are included in Note 4 - "Investments" and Note 5 - "Funds Held - Directly Managed" of our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

Eurozone Exposure

As at June 30, 2017 and December 31, 2016 we owned $18.2 million and $15.0 million, respectively, of investments in fixed maturity securities issued by the sovereign governments of Italy, Ireland and Spain.

Table of Contents

Investment Results - Consolidated

The following table summarizes our investment results for the three and six months ended June 30, 2017 and 2016.

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | (in thousands of U.S. dollars) | | |
| Net investment income | $49,417 | $44,932 | $4,485 | $98,156 | $95,212 | $2,944 |
| Net realized and unrealized gains | 51,877 | 34,503 | 17,374 | 110,396 | 72,780 | 37,616 |
| | | | | | | |
| Annualized Investment Book Yield | | | | | | |
| Annualized net investment income | 197,668 | 179,728 | 17,940 | 196,312 | 190,424 | 5,888 |
| Average aggregate invested assets, at cost[(1)] | 9,746,896 | 8,707,465 | 1,039,431 | 9,360,941 | 8,773,739 | 587,202 |
| Annualized investment book yield | 2.03 % | 2.06 % | (0.03 )% | 2.10 % | 2.17 % | (0.07 )% |
| | | | | | | |
| Financial Statement Portfolio Return | | | | | | |
| Total financial statement return[(2)] | 101,294 | 79,435 | 21,859 | 208,552 | 167,992 | 40,560 |
| Average aggregate invested assets, at fair value[(1)] | 9,796,584 | 8,696,512 | 1,100,072 | 9,373,706 | 8,743,518 | 630,188 |
| Financial statement portfolio return | 1.03 % | 0.91 % | 0.12 % | 2.22 % | 1.92 % | 0.30 % |

(1) These amounts are an average of the amounts disclosed in our quarterly U.S. GAAP consolidated financial statements.

(2) This is the sum of net investment income and net realized and unrealized gains from our U.S. GAAP consolidated financial statements.

Three and Six Months Ended June 30: Net investment income increased by $4.5 million during the three months ended June 30, 2017 compared to the three months ended June 30, 2016 due to an increase in average investable assets, partially offset by a decrease of three basis points in the book yield we obtained on our assets. Net investment income increased by $2.9 million during the six months ended June 30, 2017 compared to the six months ended June 30, 2016 due to an increase in average investable assets, partially offset by a decrease of 7 basis points in the book yield we obtained on our assets. The increase in average investable assets was primarily due to our transactions with RSA and QBE. The decrease in yield was primarily due to the changing mix in asset allocation as the assets acquired in the RSA transaction carried a lower yield than our existing portfolio.

The increase of $17.4 million in net realized and unrealized gains for the three months ended June 30 was comprised of net unrealized gains of $51.8 million in the three months ended June 30, 2017 compared to net unrealized gains of $32.3 million in the three months ended June 30, 2016, partially offset by a decrease in net realized gains of $2.0 million. The increase of $37.6 million in net realized and unrealized gains for the six months ended June 30 was comprised of net unrealized gains of $114.5 million in the six months ended June 30, 2017 compared to net unrealized gains of $72.0 million in the six months ended June 30, 2016, partially offset by a decrease in net realized gains of $4.8 million. The increase in net unrealized gains was primarily due to the increase in the valuation of our other investments and equity portfolios, partially offset by a decrease in the valuation of our fixed maturity portfolio as the treasury yield curve flattened during the three and six months ended June 30, 2017, having less of an effect compared to the decrease in treasury yields during the three and six months ended June 30, 2016.

Table of Contents

Investment Results - By Segment

The following tables summarize our investment results by segment for the three and six months ended June 30, 2017 and 2016. These tables have been prepared on a basis consistent with the consolidated table above.

Non-life Run-off

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Net investment income | $39,572 | $37,581 | $1,991 | $75,301 | $73,811 | $1,490 |
| Net realized and unrealized gains | 50,556 | 26,161 | 24,395 | 102,114 | 49,551 | 52,563 |
| Annualized Investment Book Yield | | | | | | |
| Annualized net investment income | 158,288 | 150,324 | 7,964 | 150,602 | 147,622 | 2,980 |
| Average aggregate invested assets, at cost | 7,541,833 | 6,483,945 | 1,057,888 | 7,146,368 | 6,552,733 | 593,635 |
| Annualized investment book yield | 2.10 % | 2.32 % | (0.22 )% | 2.11 % | 2.25 % | (0.14 )% |
| Financial Statement Portfolio Return | | | | | | |
| Total financial statement return | 90,128 | 63,742 | 26,386 | 177,415 | 123,362 | 54,053 |
| Average aggregate invested assets, at fair value | 7,586,709 | 6,487,387 | 1,099,322 | 7,160,199 | 6,541,455 | 618,744 |
| Financial statement portfolio return | 1.19 % | 0.98 % | 0.21 % | 2.48 % | 1.89 % | 0.59 % |

Three and Six Months Ended June 30: Net investment income increased by $2.0 million during the three months ended June 30, 2017 compared to the three months ended June 30, 2016 due to an increase in average investable assets, partially offset by a decrease of 22 basis points in the book yield we obtained on our assets. Net investment income increased by $1.5 million during the six months ended June 30, 2017 compared to the six months ended June 30, 2016 due to an increase in average investable assets, partially offset by a decrease of 14 basis points in the book yield we obtained on our assets. The increase in average investable assets was primarily due to our transactions with RSA and QBE. The decrease in yield was primarily due to the changing mix in asset allocation as the assets acquired in the RSA transaction carried a lower yield than our existing portfolio.

The increase of $24.4 million in net realized and unrealized gains for the three months ended June 30 was primarily comprised of net unrealized gains of $49.8 million in the three months ended June 30, 2017 compared to net unrealized gains of $25.5 million in the three months ended June 30, 2016. The increase of $52.6 million in net realized and unrealized gains for the six months ended June 30 was comprised of net unrealized gains of $104.0 million in the six months ended June 30, 2017 compared to net unrealized gains of $50.7 million in the six months ended June 30, 2016, partially offset by a decrease in net realized gains of $0.7 million. The increase in net unrealized gains was primarily due to the increase in the valuation of our other investment and equity portfolios, partially offset by a decrease in the valuation of our fixed maturity portfolio as the treasury yield curve flattened during the three and six months ended June 30, 2017, having less of an effect compared the decrease in treasury yields during the three and six months ended June 30, 2016.

Table of Contents

Atrium

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Net investment income | $861 | $635 | $ 226 | $1,985 | 1,189 | $ 796 |
| Net realized and unrealized gains | 474 | 68 | 406 | 892 | 108 | 784 |
| Annualized Investment Book Yield | | | | | | |
| Annualized net investment income | 3,444 | 2,540 | 904 | 3,970 | 2,378 | 1,592 |
| Average aggregate invested assets, at cost | 271,727 | 312,637 | (40,910) | 270,382 | 312,725 | (42,343) |
| Annualized investment book yield | 1.27 % | 0.81 % | 0.46 % | 1.47 % | 0.76 % | 0.71 % |
| Financial Statement Portfolio Return | | | | | | |
| Total financial statement return | 1,335 | 703 | 632 | 2,877 | 1,297 | 1,580 |
| Average aggregate invested assets, at fair value | 269,619 | 309,818 | (40,199) | 267,187 | 308,830 | (41,643) |
| Financial statement portfolio return | 0.50 % | 0.23 % | 0.27 % | 1.08 % | 0.42 % | 0.66 % |

Three and Six Months Ended June 30: Net investment income increased by $0.2 million during the three months ended June 30, 2017 compared to the three months ended June 30, 2016 due to an increase of 46 basis points in the book yield we obtained on our investable assets, partially offset by a decrease in our average investable assets. Net investment income increased by $0.8 million during the six months ended June 30, 2017 compared to the six months ended June 30, 2016 due to an increase of 71 basis points in the book yield we obtained on our investable assets, partially offset by the decrease in our average investable assets. The increase in yield was primarily due to the changing mix in asset allocation as we executed on our investment strategies. Net realized and unrealized gains increased by $0.4 million for the three months ended June 30, 2017 compared with the three months ended June 30, 2016. Net realized and unrealized gains increased by $0.8 million for the six months ended June 30, 2017 compared with the six months ended June 30, 2016. The increase in net realized and unrealized gains was primarily attributable to gains on the recent purchases of trading, equities and other investments in the portfolio.

StarStone

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Net investment income | $7,189 | $5,753 | $ 1,436 | $12,638 | $11,033 | $ 1,605 |
| Net realized and unrealized gains | 7,209 | 8,021 | (812 ) | 13,908 | 22,370 | (8,462 ) |
| Annualized Investment Book Yield | | | | | | |
| Annualized net investment income | 28,756 | 23,012 | 5,744 | 25,276 | 22,066 | 3,210 |
| Average aggregate invested assets, at cost | 1,633,059 | 1,585,479 | 47,580 | 1,637,823 | 1,583,748 | 54,075 |
| Annualized investment book yield | 1.76 % | 1.45 % | 0.31% | 1.54 % | 1.39 % | 0.15% |
| Financial Statement Portfolio Return | | | | | | |
| Total financial statement return | 14,398 | 13,774 | 624 | 26,546 | 33,403 | (6,857 ) |
| Average aggregate invested assets, at fair value | 1,638,690 | 1,574,643 | 64,047 | 1,638,232 | 1,568,789 | 69,443 |
| Financial statement portfolio return | 0.88 % | 0.87 % | 0.01 % | 1.62 % | 2.13 % | (0.51 )% |

Three and Six Months Ended June 30: Net investment income increased by $1.4 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 due to an increase in our average investable assets and an increase of 31 basis points in the book yield we obtained on those assets. Net investment income increased by $1.6 million in the six months ended June 30, 2017 compared to the six months ended June 30, 2016 due to an increase in our average investable assets and an increase of 15 basis points in the book yield we obtained on those assets. The increase in yield was primarily due to the changing mix in asset allocation as we executed

Table of Contents

on our investment strategies. Net realized and unrealized gains decreased by $0.8 million during the three months ended June 30, 2017 as compared to the three months ended June 30, 2016. Net realized and unrealized gains decreased by $8.5 million during the six months ended June 30, 2017 compared to the six months ended June 30, 2017. The decreases were primarily due to a decrease in the valuation of the fixed maturity portfolio as the treasury yield curve flattened during the three and six months ended June 30, 2017 having less of an effect compared to the decrease in treasury yields during the three and six months ended June 30, 2016, partially offset by increases in the valuation of our other investments.

Life and Annuities

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Net investment income | $3,019 | $1,822 | $1,197 | $10,353 | $10,460 | $(107) |
| Net realized and unrealized gains (losses) | (6,362) | 253 | (6,615) | (6,518) | 751 | (7,269) |
| | | | | | | |
| Annualized Investment Book Yield | | | | | | |
| Annualized net investment income | 12,076 | 7,288 | 4,788 | 20,706 | 20,920 | (214) |
| Average aggregate invested assets, at cost | 300,277 | 325,404 | (25,127) | 306,368 | 324,533 | (18,165) |
| Annualized investment book yield | 4.02 % | 2.24 % | 1.78 % | 6.76 % | 6.45 % | 0.31 % |
| | | | | | | |
| Financial Statement Portfolio Return | | | | | | |
| Total financial statement return | (3,343) | 2,075 | (5,418) | 3,835 | 11,211 | (7,376) |
| Average aggregate invested assets, at fair value | 301,566 | 324,664 | (23,098) | 308,088 | 324,444 | (16,356) |
| Financial statement portfolio return | (1.11)% | 0.64 % | (1.75)% | 1.24 % | 3.46 % | (2.22)% |

Three and Six Months Ended June 30: Net investment income increased by $1.2 million during the three months ended June 30, 2017 due to an increase in earnings from life settlements. Net investment income was relatively unchanged during the six months ended June 30, 2017. Net realized and unrealized gains (losses) decreased by $6.6 million during the three months ended June 30, primarily due to impairment charges of $6.2 million on life settlements. Net realized and unrealized gains (losses) decreased by $7.3 million during the six months ended June 30, primarily due to impairment charges of $6.3 million on life settlements.

Table of Contents

Liquidity and Capital Resources
Overview
Enstar aims to generate cash flows from our insurance operations and investments, preserve sufficient capital for future acquisitions, and develop relationships with lenders who provide borrowing capacity at competitive rates.
Our capital resources as at June 30, 2017 included shareholders' equity of $3.0 billion, redeemable noncontrolling interest of $0.5 billion classified as temporary equity, and debt obligations of $0.6 billion. The redeemable noncontrolling interest may be settled in the future in cash or Enstar ordinary shares, at our option. Based on our current loss reserves position, our portfolios of in-force insurance and reinsurance business, and our investment positions, we believe we are well capitalized.
Enstar has not historically declared a dividend. We retain earnings and utilize distributions from our subsidiaries to invest in our business strategies. We do not currently expect to pay any dividends on our ordinary shares. Any payment of dividends must be approved by our Board of Directors. Our ability to pay dividends is subject to certain restrictions, as described in "Note 22 - Dividend Restrictions and Statutory Requirements" in the notes to our consolidated financial statements included within Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2016.
Cash and Cash Equivalents
As at June 30, 2017 and December 31, 2016, we had total cash and cash equivalents, and restricted cash and cash equivalents of approximately $1.1 billion and $1.3 billion, respectively. We expect our cash flows, together with our existing capital base and cash and investments acquired on the purchase of insurance and reinsurance subsidiaries, to be sufficient to meet cash requirements and to operate our business. For a description of our sources and uses of cash in our holding company and operating companies, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Liquidity and Capital Resources" in our Annual Report on Form 10-K for the year ended December 31, 2016. Our cash and cash equivalents are comprised mainly of cash, fixed deposits, commercial paper with maturities of less than three months and money market funds.
As of June 30, 2017, we had $681.1 million of cash and cash equivalents, excluding restricted cash that supports insurance operations, and included in this amount was $600.5 million held by foreign subsidiaries outside of Bermuda. Based on our group's current corporate structure with a Bermuda domiciled parent company and the jurisdictions in which we operate, if the cash and cash equivalents held by our foreign subsidiaries were to be distributed to us, as dividends or otherwise, such amounts would not be subject to incremental income taxes, however in certain circumstances withholding taxes may be imposed by some jurisdictions, including the United States. Based on existing tax laws, regulations and our current intentions, there was no accrual as of June 30, 2017 for any material withholding taxes on dividends or other distributions, as described in "Note 18 - Taxation" in the notes to our consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.
The following table summarizes our consolidated cash flows provided by (used in) operating, investing and financing activities for the six months ended June 30, 2017 and 2016:

| | Six Months Ended June 30, | | |
|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | |
| Cash provided by (used in): | | | |
| Operating activities | $(262,549) | $(184,037) | $(78,512) |
| Investing activities | 121,196 | 75,713 | 45,483 |
| Financing activities | (66,858) | 13,548 | (80,406) |
| Effect of exchange rate changes on cash | 636 | 451 | 185 |
| Net increase (decrease) in cash and cash equivalents | (207,575) | (94,325) | (113,250) |
| Cash and cash equivalents, beginning of period | 1,318,645 | 1,295,169 | 23,476 |
| Change in cash of businesses held-for-sale | (6,319) | — | (6,319) |
| Cash and cash equivalents, end of period | $1,104,751 | $1,200,844 | $(89,774) |

84

Details of our consolidated cash flows are included in "Item 1. Financial Statements - Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited)."
2017 versus 2016: Cash and cash equivalents decreased by $207.6 million during the six months ended June 30, 2017 compared with a decrease of $94.3 million during the six months ended June 30, 2016.
For the six months ended June 30, 2017, cash and cash equivalents decreased by $207.6 million, as cash used in operations of $262.5 million and cash used in financing of $66.9 million was partially offset by cash provided by investing activities of $121.2 million. Cash used in operations is largely a result of the timing of loss payments across all of our segments. Cash used in financing activities for the six months ended June 30, 2017 related primarily to the repayment of the remaining principal on the Sussex term loan ("Sussex Facility"). Dividends of $27.5 million were also paid to redeemable noncontrolling interests during the six months ended June 30, 2017. In addition, during the six months ended June 30, 2017 we raised $347.1 million of proceeds, net of issuance costs, from the public offering of Senior Notes, and those proceeds were used to repay a portion of our revolving credit facility. Cash provided by investing activities for the six months ended June 30, 2017 primarily related to the net redemptions of other investments of $85.1 million.

For the six months ended June 30, 2016, cash and cash equivalents decreased by $94.3 million, as cash used in operations of $184.0 million, was partially offset by cash provided by investing activities of $75.7 million and cash provided by financing activities of $13.5 million. Cash provided by investing activities for the six months ended June 30, 2016 primarily related to the net redemptions of other investments of $59.7 million. Cash provided by financing activities for the six months ended June 30, 2016 was not significantly changed, as net drawdowns of $44.1 million under the Enstar Group Limited Revolving Credit Facility were substantially offset by repayments of $30.5 million related to the Sussex Facility.
Investments
As at June 30, 2017 and December 31, 2016, we had total investments of approximately $7.3 billion and $6.0 billion, respectively. The increase related to the transactions with QBE and RSA.
For information regarding our investments, refer to "Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Investments."
Reinsurance Balances Recoverable
As at June 30, 2017 and December 31, 2016, we had reinsurance balances recoverable of $2.0 billion and $1.5 billion, respectively. The increase related to the transactions with QBE and RSA.

Our insurance and reinsurance run-off subsidiaries, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed. On an annual basis, both Atrium and StarStone purchase a tailored outwards reinsurance program designed to manage their risk profiles. The majority of Atrium’s and StarStone's third-party reinsurance cover is with highly rated reinsurers or is collateralized by letters of credit.
We remain liable to the extent that retrocessionaires do not meet their obligations under these agreements, and therefore, we evaluate and monitor concentration of credit risk among our reinsurers. Provisions are made for amounts considered potentially uncollectible.
For further information regarding our reinsurance balances recoverable, refer to Note 8 - "Reinsurance Balances Recoverable" in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.
Funds Held by Reinsured Companies
As at June 30, 2017 and December 31, 2016, we had funds held - directly managed of $1.2 billion and $1.0 billion, respectively. The increase was primarily due to the completion on January 11, 2017 of our transaction with QBE to reinsure portfolios of QBE's run-off business, which was completed on a partial funds held basis. Our funds held - directly managed is carried on our consolidated balance sheets at fair value due to a variable investment crediting rate on the Allianz transaction and the election of the fair value option for the reinsurance transaction with QBE. For further information regarding our funds held - directly managed, refer to Note 5 - "Funds held - directly managed" in

the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

Table of Contents

In addition, as at June 30, 2017 and December 31, 2016, we had funds held by reinsured companies of $84.1 million and $82.1 million, respectively, which are carried at cost with a fixed crediting rate.

For information regarding credit risk, refer to "Item 3. Quantitative and Qualitative Disclosures About Market Risk - Credit Risk - Funds Held by Reinsured Companies" of this Quarterly Report on Form 10-Q.

Debt Obligations

We utilize loan facilities primarily for acquisitions, loss portfolio transfer reinsurance transactions and, from time to time, for general corporate purposes. For information regarding our loan facilities, including our loan covenants, refer to "Note 13 - Debt Obligations" in the notes to our consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q. Debt obligations as of June 30, 2017 and December 31, 2016 were $640.8 million and $673.6 million, respectively.

On March 10, 2017, we issued Senior Notes (the "Notes") for an aggregate principal amount of $350.0 million. The Notes pay 4.5% interest semi-annually and mature on March 10, 2022. The Notes are unsecured and unsubordinated obligations that rank equal to any of our other unsecured and unsubordinated, senior to any future obligations that are expressly subordinated to the Notes, effectively subordinated to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness, and structurally subordinated to all liabilities of our subsidiaries.

Our main facility is the EGL Revolving Credit Facility, originated on September 16, 2014 for a five-year term, and most recently amended on March 20, 2017. This facility is among the Company and certain of its subsidiaries, as borrowers and as guarantors, and various financial institutions. We are permitted to borrow up to an aggregate of $831.3 million. The individual outstanding loans under the facility are unsecured short-term floating rate loans with an interest rate of LIBOR plus an applicable margin and utilization fee as set forth in the credit facility agreement. As at June 30, 2017, $612.7 million of the total capacity was available for use under the EGL Revolving Credit Facility. During the six months ended June 30, 2017, our borrowing included €75.0 million to hedge the foreign currency exposure on our net investment in certain of our subsidiaries whose functional currency is denominated in Euros. Subsequent to June 30, 2017, we utilized nil and repaid $2.2 million, bringing unutilized capacity under this facility to $614.9 million.

We also have a three-year unsecured term loan (the "EGL Term Loan Facility") that was originated on November 18, 2016. As at June 30, 2017, the outstanding principal under this facility was $75.0 million, and there was no unutilized capacity.

The Sussex Facility, a four-year term loan that was originated on December 24, 2014 with two financial institutions, was fully repaid during the six months ended June 30, 2017. As at December 31, 2016, the outstanding principal under this facility was $63.5 million.

Contractual Obligations

The following table summarizes, as of June 30, 2017, our future payments under contractual obligations and estimated payments for losses and LAE and policy benefits by expected payment date and updates the table on page 76 of our Annual Report on Form 10-K for the year ended December 31, 2016. The table excludes short-term liabilities and includes only obligations that are expected to be settled in cash.

| | Total | Less than 1 Year | 1 - 3 years | 3 - 5 years | More than 5 Years |
|---|---|---|---|---|---|
| | (in millions of U.S. dollars) | | | | |
| Operating Activities | | | | | |
| Estimated gross reserves for losses and LAE [(1)] | $8,119.3 | $1,401.5 | $2,348.7 | $1,211.7 | $3,157.4 |
| Policy benefits for life and annuity contracts [(2)] | 326.2 | 21.1 | 41.2 | 38.5 | 225.4 |
| Operating lease obligations | 47.4 | 10.7 | 17.7 | 10.5 | 8.5 |
| Investing Activities | | | | | |
| Investment commitments | 183.7 | 80.0 | 78.8 | 24.9 | — |
| Financing Activities | | | | | |
| Loan repayments (including estimated interest payments) | 755.8 | 33.4 | 340.9 | 381.5 | — |
| Total | $9,432.4 | $1,546.7 | $2,827.3 | $1,667.1 | $3,391.3 |

(1) The reserves for losses and LAE represent management's estimate of the ultimate cost of settling losses. The estimation of losses is based on various complex and subjective judgments. Actual losses paid may differ, perhaps significantly, from the reserve estimates reflected in our financial statements. Similarly, the timing of payment of our estimated losses is not fixed and there may be significant changes in actual payment activity. The assumptions used in estimating the likely payments due by period are based on our historical claims payment experience and industry payment patterns, but due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid in any such period can be significantly different from the amounts disclosed above. The amounts in the above table represent our estimates of known liabilities as of June 30, 2017 and do not take into account corresponding reinsurance recoverable amounts that would be due to us. Furthermore, certain of the reserves included in the unaudited condensed consolidated financial statements as of June 30, 2017 were acquired by us and initially recorded at fair value with subsequent amortization, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect the fair value adjustment in the amount payable.

(2) Policy benefits for life and annuity contracts recorded in our unaudited condensed consolidated balance sheet as at June 30, 2017 of $114.7 million are computed on a discounted basis, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect a discount of the amount payable.

For additional information relating to our commitments and contingencies, see "Note 20 - Commitments and Contingencies" in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

At June 30, 2017, we did not have any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

Table of Contents

Critical Accounting Policies

Our critical accounting policies are discussed in Management's Discussion and Analysis of Results of Operations and Financial Condition contained in our Annual Report on Form 10-K for the year ended December 31, 2016 and have not materially changed, except as set forth below.

Fair Value Option - Insurance Contracts

In our Non-life Run-off segment we have elected to apply the fair value option for certain loss portfolio transfer reinsurance transactions. This is an irrevocable election that applies to all balances under the insurance contract, including funds held assets, reinsurance recoverable, and the liability for losses and loss adjustment expenses.

The fair value of the liability for losses and LAE and reinsurance recoverable under these contracts is presented separately in our consolidated balance sheet as at June 30, 2017. Changes in the fair value of the liability for losses and LAE and reinsurance recoverable are included in net incurred losses and LAE in our consolidated statement of operations.

The Company uses an internal model to calculate the fair value of the liability for losses and loss adjustment expenses and reinsurance recoverable asset for certain retroactive reinsurance contracts where we have elected the fair value option in our Non-life Run-off segment.

The fair value was calculated as the aggregate of discounted cash flows plus a risk margin:

- The discounted cash flow approach uses (i) estimated nominal cash flows based upon an appropriate payment pattern developed in accordance with standard actuarial techniques and (ii) a discount rate based upon a high quality rated corporate bond plus a credit spread for non-performance risk. The model uses corporate bond rates across the yield curve depending on the estimated timing of the future cash flows and specific to the currency of the risk.
- The risk margin was calculated using the present value of the cost of capital. The cost of capital approach uses (i) projected capital requirements, (ii) multiplied by the risk cost of capital representing the return required for non-hedgeable risk based upon the weighted average cost of capital less investment income, and (iii) discounted using the weighted average cost of capital.

The observable and unobservable inputs used in the model are described in Note 6 - "Fair Value Measurements" in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report.

The fair value of the liability for losses and LAE and reinsurance recoverable may increase or decrease due to changes in the corporate bond rate, the credit spread for non-performance risk, the risk cost of capital, the weighted average cost of capital and the estimated payment pattern:

- An increase in the corporate bond rate or credit spread for non-performance risk would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable. Conversely, a decrease in the corporate bond rate or credit spread for non-performance risk would result in an increase in the fair value of the liability for losses and LAE and reinsurance recoverable.
- An increase in the weighted average cost of capital would result in an increase in the fair value of the liability for losses and LAE and reinsurance recoverable. Conversely, a decrease in the weighted average cost of capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable.
- An increase in the risk cost of capital would result in a increase in the fair value of the liability for losses and LAE and reinsurance recoverable. Conversely, a decrease in the risk cost of capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable.
- An acceleration of the estimated payment pattern would result in an increase in the fair value of the liability for losses and LAE and reinsurance recoverable. Conversely, a deceleration of the estimated payment pattern would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable.

In addition, the estimate of the capital required to support the liabilities is based upon current industry standards for capital adequacy. If the required capital per unit of risk increases then the fair value of the liability for losses and LAE and reinsurance recoverable would increase. Conversely, a decrease in required capital would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable.

88

Table of Contents

Cautionary Statement Regarding Forward-Looking Statements

This quarterly report and the documents incorporated by reference contain statements that constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, with respect to our financial condition, results of operations, business strategies, operating efficiencies, competitive positions, growth opportunities, plans and objectives of our management, as well as the markets for our ordinary shares and the insurance and reinsurance sectors in general. Statements that include words such as "estimate," "project," "plan," "intend," "expect," "anticipate," "believe," "would," "should," "could," "seek," "may" and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. All forward-looking statements are necessarily estimates or expectations, and not statements of historical fact, reflecting the best judgment of our management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward looking statements should, therefore, be considered in light of various important factors, including those set forth in this quarterly report and in our Annual Report on Form 10-K for the year ended December 31, 2016. These factors include:

- risks associated with implementing our business strategies and initiatives;
- risks that we may require additional capital in the future, which may not be available or may be available only on unfavorable terms;
- the adequacy of our loss reserves and the need to adjust such reserves as claims develop over time;
- risks relating to the availability and collectability of our reinsurance;
- changes and uncertainty in economic conditions, including interest rates, inflation, currency exchange rates, equity markets and credit conditions, which could affect our investment portfolio, our ability to finance future acquisitions and our profitability;
- the risk that ongoing or future industry regulatory developments will disrupt our business, affect the ability of our subsidiaries to operate in the ordinary course or to make distributions to us, or mandate changes in industry practices in ways that increase our costs, decrease our revenues or require us to alter aspects of the way we do business;
- losses due to foreign currency exchange rate fluctuations;
- increased competitive pressures, including the consolidation and increased globalization of reinsurance providers;
- emerging claim and coverage issues;
- lengthy and unpredictable litigation affecting assessment of losses and/or coverage issues;
- loss of key personnel;
- the ability of our subsidiaries to distribute funds to us and the resulting impact on our liquidity;
- our ability to comply with covenants in our debt agreements;
- changes in our plans, strategies, objectives, expectations or intentions, which may happen at any time at management's discretion;
- operational risks, including system, data security or human failures and external hazards;
- risks relating to our acquisitions, including our ability to continue to grow, successfully price acquisitions, evaluate opportunities, address operational challenges, support our planned growth and assimilate acquired companies into our internal control system in order to maintain effective internal controls, provide reliable financial reports and prevent fraud;
- risks relating to our ability to obtain regulatory approvals, including the timing, terms and conditions of any such approvals, and to satisfy other closing conditions in connection with our acquisition and disposition agreements, which could affect our ability to complete acquisitions;

Table of Contents

- risks relating to our active underwriting businesses, including unpredictability and severity of catastrophic and other major loss events, failure of risk management and loss limitation methods, the risk of a ratings downgrade or withdrawal, cyclicality of demand and pricing in the insurance and reinsurance markets;
- our ability to implement our strategies relating to our active underwriting businesses;
- risks relating to our life and annuities business, including mortality and morbidity rates, lapse rates, the performance of assets to support the insured liabilities, and the risk of catastrophic events;
- risks relating to our investments in life settlements contracts, including that actual experience may differ from our assumptions regarding longevity, cost projections, and risk of non-payment from the insurance carrier;
- risks relating to our subsidiaries with liabilities arising from legacy manufacturing operations;
- risks relating to the performance of our investment portfolio and our ability to structure our investments in a manner that recognizes our liquidity needs;
- tax, regulatory or legal restrictions or limitations applicable to us or the insurance and reinsurance business generally;
- changes in tax laws or regulations applicable to us or our subsidiaries, or the risk that we or one of our non-U.S. subsidiaries become subject to significant, or significantly increased, income taxes in the United States or elsewhere;
- changes in Bermuda law or regulation or the political stability of Bermuda; and
- changes in accounting policies or practices.

The factors listed above should be not construed as exhaustive and should be read in conjunction with the other cautionary statements and Risk Factors that are included in our Annual Report on Form 10-K for the year ended December 31, 2016. We undertake no obligation to publicly update or review any forward looking statement, whether to reflect any change in our expectations with regard thereto, or as a result of new information, future developments or otherwise, except as required by law.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following risk management discussion and the estimated amounts generated from sensitivity analysis presented are forward-looking statements of market risk assuming certain market conditions occur. Future results may differ materially from these estimated results due to, among other things, actual developments in the global financial markets, changes in the composition of our investment portfolio, or changes in our business strategies. The results of analysis we use to assess and mitigate risk are not projections of future events or losses. See "Cautionary Statement Regarding Forward-Looking Statements" for additional information regarding our forward-looking statements.

We are principally exposed to four types of market risk: interest rate risk, credit risk, equity price risk and foreign currency risk. Our policies to address these risks in 2017 were not materially different than those used in 2016, and based on our current knowledge and expectations, we do not currently anticipate significant changes in our market risk exposures or in how we will manage those exposures in future reporting periods.

### Interest Rate Risk

Interest rate risk is the price sensitivity of a security to changes in interest rates. Our investment portfolio and funds held -directly managed includes fixed maturity and short-term investments, whose fair values will fluctuate with changes in interest rates. We attempt to maintain adequate liquidity in our fixed maturity investments portfolio with a strategy designed to emphasize the preservation of our invested assets and provide sufficient liquidity for the prompt payment of claims and contract liabilities, as well as for settlement of commutation payments. We also monitor the duration and structure of our investment portfolio.

The following table summarizes the aggregate hypothetical change in fair value from an immediate parallel shift in the treasury yield curve, assuming credit spreads remain constant, in our fixed maturity and short-term investments portfolio classified as trading and available-for-sale as at June 30, 2017 and December 31, 2016:

| | Interest Rate Shift in Basis Points | | | | |
|---|---|---|---|---|---|
| As at June 30, 2017 | -100 | -50 | — | +50 | +100 |
| | (in millions of U.S. dollars) | | | | |
| Total Market Value | $6,459 | $6,328 | $6,200 | $6,075 | $5,956 |
| Market Value Change from Base | 4.2 % | 2.1 % | — | (2.0 )% | (3.9 )% |
| Change in Unrealized Value | $259 | $128 | $— | $(125 ) | $(244 ) |
| | | | | | |
| As at December 31, 2016 | -100 | -50 | — | +50 | +100 |
| Total Market Value | $5,040 | $4,969 | $4,879 | $4,830 | $4,762 |
| Market Value Change from Base | 3.3 % | 1.8 % | — | (1.0 )% | (2.4 )% |
| Change in Unrealized Value | $161 | $90 | $— | $(49 ) | $(117 ) |

The following table summarizes the aggregate hypothetical change in fair value from an immediate parallel shift in the treasury yield curve, assuming credit spreads remain constant, in our funds held - directly managed portfolio as at June 30, 2017 and December 31, 2016:

| | Interest Rate Shift in Basis Points | | | | |
|---|---|---|---|---|---|
| As at June 30, 2017 | -100 | -50 | — | +50 | +100 |
| | (in millions of U.S. dollars) | | | | |
| Total Market Value | $1,275 | $1,231 | $1,190 | $1,152 | $1,116 |
| Market Value Change from Base | 7.1 % | 3.4 % | — | (3.2 )% | (6.2 )% |
| Change in Unrealized Value | $85 | $41 | $— | $(38 ) | $(74 ) |
| | | | | | |
| As at December 31, 2016 | -100 | -50 | — | +50 | +100 |
| Total Market Value | $1,057 | $1,022 | $988 | $958 | $928 |
| Market Value Change from Base | 7.0 % | 3.4 % | — | (3.0 )% | (6.1 )% |
| Change in Unrealized Value | $69 | $34 | $— | $(30 ) | $(60 ) |

Actual shifts in interest rates may not change by the same magnitude across the maturity spectrum or on an individual security and, as a result, the impact on the fair value of our fixed maturity securities, short-term investments and funds held - directly managed may be materially different from the resulting change in value indicated in the tables above.

Credit Risk

Credit risk relates to the uncertainty of a counterparty's ability to make timely payments in accordance with contractual terms of the instrument or contract. We are exposed to direct credit risk primarily within our portfolios of fixed maturity and short-term investments, and through customers, brokers and reinsurers in the form of premiums receivable, reinsurance recoverables, and funds held by reinsured companies, as discussed below.

Fixed Maturity and Short-Term Investments

As a holder of fixed maturity and short-term investments, we also have exposure to credit risk as a result of investment ratings downgrades or issuer defaults. In an effort to mitigate this risk, our investment portfolio consists primarily of investment grade-rated, liquid, fixed maturity investments of short-to-medium duration and mutual funds. A table of credit ratings for our fixed maturity and short-term investments is in "Note 4 - Investments" in the notes to our unaudited condensed consolidated financial statements included within Part I, Item 1 of this Quarterly Report on Form 10-Q. As at June 30, 2017, approximately 47.8% of our fixed maturity and short-term investment portfolio was rated AA or higher by a major rating agency (December 31, 2016: 52.2%), with 4.5% rated lower than BBB- (December 31, 2016: 4.6%). The portfolio as a whole had an average credit quality rating of A+ as at June 30, 2017 (December 31, 2016: A+). In addition, we manage our portfolio pursuant to guidelines that follow what we believe are prudent standards of diversification. The guidelines limit the allowable holdings of a single issue and issuers and, as a result, we do not believe we have significant concentrations of credit risk.

Reinsurance

We have exposure to credit risk as it relates to our reinsurance balances recoverable. Our insurance subsidiaries remain liable to the extent that retrocessionaires do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our reinsurers. These amounts are discussed in "Note 8 - Reinsurance Balances Recoverable" in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report.

As at June 30, 2017 and December 31, 2016, our reinsurance balances recoverable included $288.2 million and $242.1 million, respectively, from a related party and equity method investee, KaylaRe Ltd., amongst other balances, as discussed in "Note 19 - Related Party Transactions" in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report.

Funds Held

Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our reinsurance subsidiaries. The funds balance is credited with investment income and losses payable are deducted. We are subject to credit risk if the reinsured company is unable to honor the value of the funds held balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. Our funds held are shown under two categories on the consolidated balance sheets, where funds held upon which we receive the underlying portfolio economics are shown as "Funds held - directly managed", and funds held where we receive a fixed crediting rate are shown as "Funds held by reinsured companies". Both types of funds held are subject to credit risk. We routinely monitor the creditworthiness of reinsured companies with whom we have funds held arrangements. We have a significant concentration of $1.0 billion to one reinsured company which has financial strength credit ratings of A+ from A.M. Best and AA from Standard & Poor's.

Equity Price Risk

Our portfolio of equity investments, including the equity funds and call options on equities included in other investments (collectively, "equities at risk"), has exposure to equity price risk, which is the risk of potential loss in fair value resulting from adverse changes in stock prices. Our global equity portfolio is correlated with a blend of the S&P 500 and MSCI World indices, and changes in this blend of indices would approximate the impact on our portfolio. The fair value of our equities at risk at June 30, 2017 was approximately $336.9 million (December 31, 2016: $318.6

million). At June 30, 2017, the impact of a 10% decline in the overall market prices of our equities at risk would be approximately $33.7 million (December 31, 2016: $31.9 million), on a pre-tax basis.
Foreign Currency Risk
Our foreign currency policy is to broadly manage, where possible, our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with assets that are

denominated in such currencies, subject to regulatory constraints. In addition, we may selectively utilize foreign currency forward contracts to mitigate foreign currency risk. To the extent our foreign currency exposure is not matched or hedged, we may experience foreign exchange losses or gains, which would be reflected in our results of operations and financial condition.

Through our subsidiaries located in various jurisdictions, we conduct our insurance and reinsurance operations in a variety of non-U.S. currencies. The functional currency for the majority of our subsidiaries is the U.S. dollar. Fluctuations in foreign currency exchange rates relative to a subsidiary's functional currency will have a direct impact on the valuation of our assets and liabilities denominated in other currencies. All changes in foreign exchange rates, with the exception of non-U.S. dollar denominated investments classified as available-for-sale, are recognized in foreign exchange gains (losses) in our consolidated statements of earnings. Changes in foreign exchange rates relating to non-U.S. dollar denominated investments classified as available-for-sale are recorded in unrealized gains (losses) on investments, which is a component of accumulated other comprehensive income (loss) in shareholders’ equity.

We have exposure to foreign currency risk through our ownership of European, British, Canadian, and Australian subsidiaries whose functional currencies are the Euro, British pound, Canadian dollar, and Australian dollar, respectively. The foreign exchange gain or loss resulting from the translation of their financial statements from functional currency into U.S. dollars is recorded in the currency translation adjustment account, which is a component of accumulated other comprehensive income (loss) in shareholders’ equity. During the six months ended June 30, 2017, we maintained our borrowing of Euros under the EGL Revolving Credit Facility to hedge the foreign currency exposure on our net investment in certain of our subsidiaries whose functional currency is denominated in Euros. During the six months ended June 30, 2017, we entered into forward exchange contracts to hedge the foreign currency exposure on our net investment in certain of our subsidiaries whose functional currencies are denominated in Canadian and Australian dollars. The loan and the forward contracts are discussed in "Note 13 - Debt Obligations" and "Note 7 - Derivative Instruments", respectively, in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report. We utilized hedge accounting to record the foreign exchange gain or loss on these instruments in the currency translation account. We also utilized foreign currency forward contracts to hedge certain foreign currency exposures in British pounds and Euros which were not designated for hedge accounting.

The table below summarizes our net exposures to foreign currencies as at June 30, 2017 and December 31, 2016:

| As at June 30, 2017 | GBP | Euro | AUD | CDN | Other | Total |
|---|---|---|---|---|---|---|
| | (in millions of U.S. dollars) | | | | | |
| Total net foreign currency exposure | $82.3 | $15.1 | $5.0 | $5.5 | $2.0 | $109.9 |
| Pre-tax impact of a 10% movement of the U.S. dollar[1] | $8.2 | $1.5 | $0.5 | $0.5 | $0.2 | $10.9 |

| As at December 31, 2016 | GBP | Euro | AUD | CDN | Other | Total |
|---|---|---|---|---|---|---|
| | (in millions of U.S. dollars) | | | | | |
| Total net foreign currency exposure | $20.6 | $17.9 | $12.2 | $26.6 | $5.2 | $82.5 |
| Pre-tax impact of a 10% movement of the U.S. dollar[1] | $2.1 | $1.8 | $1.2 | $2.7 | $0.5 | $8.3 |

[1] Assumes 10% change in the U.S. dollar relative to other currencies

Effects of Inflation

We do not believe that inflation has had or will have a material effect on our consolidated results of operations, however, the actual effects of inflation on our results cannot be accurately known until claims are ultimately resolved. Inflation may affect the value of our assets, as well as our liabilities including losses and LAE by causing the cost of claims to rise in the future. Although loss reserves are established to reflect likely loss settlements at the date payment is made, we would be subject to the risk that inflation could cause these costs to increase above established reserves.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2017. Based on that evaluation, our Chief Executive

93

Table of Contents

Officer and our Chief Financial Officer have concluded that we maintained effective disclosure controls and procedures to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and timely reported as specified in the rules and forms of the U.S. Securities and Exchange Commission and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 20 - "Commitments and Contingencies" in the notes to our unaudited condensed consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

Our results of operations and financial condition are subject to numerous risks and uncertainties described in “Risk Factors” included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016. The risk factors identified therein have not materially changed.

### ITEM 6. EXHIBITS

The information required by this item is set forth on the exhibit index that follows the signature page of this report.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 3, 2017.

ENSTAR GROUP LIMITED

By: /S/ MARK SMITH
Mark Smith
Chief Financial Officer, Authorized Signatory and Principal Financial Officer

By: /S/ GUY BOWKER
Guy Bowker
Chief Accounting Officer and Principal Accounting Officer

Table of Contents

Exhibit Index

| Exhibit No. | Description |
|---|---|
| 2.1 | Stock Purchase Agreement, dated February 17, 2017, by and between Southland National Holdings, Inc. and Laguna Life Holdings SARL (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed on February 21, 2017). |
| 3.1 | Memorandum of Association of Enstar Group Limited (incorporated by reference to Exhibit 3.1 of the Company’s Form 10-K/A filed on May 2, 2011). |
| 3.2 | Fourth Amended and Restated Bye-Laws of Enstar Group Limited (incorporated by reference to Exhibit 3.2(b) of the Company’s Form 10-Q filed on August 11, 2014). |
| 3.3 | Certificate of Designations of Series C Participating Non-Voting Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company’s Form 8-K filed on June 17, 2016). |
| 10.1+ | Amended and Restated Employment Agreement, dated as of April 12, 2017 and effective April 17, 2017, by and between Enstar Group Limited and Dominic F. Silvester (incorporated by reference to Exhibit 10.2 of the Company’s Form 10-Q filed on May 8, 2017). |
| 10.2+ | Amended and Restated Employment Agreement, dated May 19, 2017, by and between Enstar Group Limited and Paul J. O'Shea (incorporated by reference to Exhibit 10.1 of the Company’s Form 8-K filed on May 22, 2017). |
| 10.3+ | Amended and Restated Employment Agreement, dated May 19, 2017, by and between Enstar Group Limited and Orla M. Gregory (incorporated by reference to Exhibit 10.2 of the Company’s Form 8-K filed on May 22, 2017). |
| 10.4+ | Transition Agreement, dated May 19, 2017, by and between Enstar Group Limited and Mark W. Smith (incorporated by reference to Exhibit 10.3 of the Company’s Form 8-K filed on May 22, 2017). |
| 31.1* | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101* | Interactive Data Files. |

* filed herewith
** furnished herewith

+ denotes management contract or compensatory arrangement