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

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

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.

Table of Contents

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

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

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".

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	%

Table of Contents

ENSTAR GROUP LIMITED

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

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)

	June 30, 2017			
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	$—	$ 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.

Table of Contents

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.

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

Table of Contents

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."

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