Enstar Group LTD
Form 10-Q
August 05, 2016

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, 2016
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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filerþ Accelerated filer¨ Non-accelerated filer¨ Smaller reporting company¨
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 5, 2016, the registrant had outstanding 16,225,391 voting ordinary shares and 3,130,408 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, 2016

Table of Contents

Table of Contents

PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
As of June 30, 2016 and December 31, 2015

	June 30, 2016	December 31, 2015
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, trading, at fair value	$ 122,746	$ 87,350
Short-term investments, available-for-sale, at fair value (amortized cost: 2016 — $2,406; 2015 — $8,630)	2,401	8,622
Fixed maturities, trading, at fair value	4,986,615	4,990,794
Fixed maturities, held-to-maturity, at amortized cost	770,655	790,866
Fixed maturities, available-for-sale, at fair value (amortized cost: 2016 — $297,327; 2015 — $300,160)	299,929	293,679
Equities, trading, at fair value	117,293	115,941
Other investments, at fair value	936,158	1,034,032
Other investments, at cost	129,636	133,071
Total investments	7,365,433	7,454,355
Cash and cash equivalents	800,846	821,925
Restricted cash and cash equivalents	446,293	511,339
Premiums receivable	416,354	381,412
Deferred tax assets	116,047	121,035
Prepaid reinsurance premiums	145,184	121,427
Reinsurance balances recoverable	1,345,115	1,474,004
Funds held by reinsured companies	1,190,899	109,358
Deferred acquisition costs	101,227	89,123
Goodwill and intangible assets	187,555	191,304
Other assets	544,213	556,850
TOTAL ASSETS	$ 12,659,166	$ 11,832,132
LIABILITIES		
Losses and loss adjustment expenses	$ 6,433,845	$ 5,720,149
Policy benefits for life and annuity contracts	1,286,276	1,304,697
Unearned premiums	576,970	542,771
Insurance and reinsurance balances payable	318,072	274,598
Deferred tax liabilities	94,676	92,588
Loans payable	614,030	600,250
Other liabilities	276,186	358,633
TOTAL LIABILITIES	9,600,055	8,893,686
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NONCONTROLLING INTEREST	439,656	417,663
SHAREHOLDERS' EQUITY		

Share capital authorized, issued and fully paid, par value $1 each (authorized 2016 and 2015: 156,000,000):		
Ordinary shares (issued and outstanding 2016: 16,166,652; 2015: 16,133,334)	16,167	16,133
Non-voting convertible ordinary shares:		
Series A (issued 2016: nil; 2015: 2,972,892)	—	2,973
Series C (issued and outstanding 2016: 2,725,637; 2015: 2,725,637)	2,726	2,726
Series E (issued and outstanding 2016: 404,771; 2015: 404,771)	405	405
Series C Preferred Shares (issued and outstanding 2016: 388,571; 2015: nil)	389	—
Treasury shares at cost (Preferred shares 2016: 388,571; Series A non-voting convertible ordinary shares 2015: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	1,376,590	1,373,044
Accumulated other comprehensive loss	(21,527)	(35,162)
Retained earnings	1,662,623	1,578,312
Total Enstar Group Limited Shareholders' Equity	2,615,814	2,516,872
Noncontrolling interest	3,641	3,911
TOTAL SHAREHOLDERS' EQUITY	2,619,455	2,520,783
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY	$ 12,659,166	$ 11,832,132

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, 2016 and 2015

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(expressed in thousands of U.S. dollars, except share and per share data)			
INCOME				
Net premiums earned	$226,928	$212,023	$436,337	$410,929
Fees and commission income	7,243	9,131	12,590	20,611
Net investment income	54,223	34,655	114,286	65,072
Net realized and unrealized gains (losses)	37,987	(11,249)	75,951	31,771
Other income	4,048	11,838	6,461	15,314
	330,429	256,398	645,625	543,697
EXPENSES				
Net incurred losses and loss adjustment expenses	96,462	65,900	179,680	136,036
Life and annuity policy benefits	19,778	28,090	40,758	50,937
Acquisition costs	46,489	37,094	93,754	71,644
General and administrative expenses	105,878	93,963	200,324	190,561
Interest expense	5,424	4,876	10,825	8,879
Net foreign exchange losses (gains)	(1,856)	2,452	(84)	(2,619)
	272,175	232,375	525,257	455,438
EARNINGS BEFORE INCOME TAXES	58,254	24,023	120,368	88,259
INCOME TAXES	(8,473)	(5,816)	(15,982)	(16,560)
NET EARNINGS	49,781	18,207	104,386	71,699
Less: Net earnings attributable to noncontrolling interest	(9,187)	(3,662)	(18,272)	(12,307)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$40,594	$14,545	$86,114	$59,392
EARNINGS PER SHARE — BASIC				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	$2.10	$0.76	$4.46	$3.09
EARNINGS PER SHARE — DILUTED				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	$2.09	$0.75	$4.43	$3.07
Weighted average ordinary shares outstanding — basic	19,295,280	19,252,359	19,289,119	19,244,951
Weighted average ordinary shares outstanding — diluted	19,430,464	19,383,753	19,420,541	19,364,775

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Six Months Ended June 30, 2016 and 2015

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(expressed in thousands of U.S. dollars)			
NET EARNINGS	$49,781	$18,207	$104,386	$71,699
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) on fixed income investments arising during the period	2,174	2,162	9,094	(2,194)
Reclassification adjustment for net realized losses (gains) included in net earnings	113	(38)	135	(144)
Unrealized gains (losses) arising during the period, net of reclassification adjustment	2,287	2,124	9,229	(2,338)
Currency translation adjustment	(4,542)	3,299	6,053	(12,587)
Total other comprehensive income (loss)	(2,255)	5,423	15,282	(14,925)
Comprehensive income	47,526	23,630	119,668	56,774
Less comprehensive income attributable to noncontrolling interest	(9,353)	(533)	(19,919)	(6,169)
COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$38,173	$23,097	$99,749	$50,605

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, 2016 and 2015

	Six Months Ended June 30, 2016	2015
	(expressed in thousands of U.S. dollars)	
Share Capital — Ordinary Shares		
Balance, beginning of period	$ 16,133	$ 15,761
Issue of shares	34	54
Conversion of Series E Non-Voting Convertible Ordinary Shares	—	12
Balance, end of period	$ 16,167	$ 15,827
Share Capital — Series A Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	$ 2,973	$ 2,973
Shares converted to Series C Convertible Participating Non-Voting Perpetual Preferred Stock	(2,973)	—
Balance, end of period	$ —	$ 2,973
Share Capital — Series C Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	$ 2,726	$ 2,726
Share Capital — Series E Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	$ 405	$ 714
Conversion to Ordinary Shares	—	(12)
Balance, end of period	$ 405	$ 702
Share Capital — Series C Convertible Participating Non-Voting Perpetual Preferred Stock		
Balance, beginning of period	$ —	$ —
Conversion of Series A Non-Voting Convertible Ordinary Stock	389	—
Balance, end of period	$ 389	$ —
Treasury Shares		
Balance, beginning and end of period	$ (421,559)	$ (421,559)
Additional Paid-in Capital		
Balance, beginning of period	$ 1,373,044	$ 1,321,715
Issue of shares and warrants	360	911
Conversion of Series A Non-Voting Convertible Ordinary Stock	2,584	—
Amortization of equity incentive plan	602	2,821
Equity attributable to Enstar Group Limited on acquisition of noncontrolling shareholders' interest in subsidiaries	—	39,569
Balance, end of period	$ 1,376,590	$ 1,365,016
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	$ (35,162)	$ (12,686)
Currency translation adjustment		
Balance, beginning of period	(23,790)	(2,779)
Change in currency translation adjustment	6,053	(10,227)
Purchase of noncontrolling shareholder's interest in subsidiaries	—	2,937
Balance, end of period	(17,737)	(10,069)
Defined benefit pension liability		
Balance, beginning and end of period	(7,723)	(7,726)
Unrealized gains (losses) on investments		

Balance, beginning of period	(3,649)	(2,181)
Change in unrealized losses on investments	7,582	(1,809)
Purchase of noncontrolling shareholders’ interest in subsidiaries	—	312
Balance, end of period	3,933	(3,678)
Balance, end of period	$ (21,527)	$ (21,473)
Retained Earnings		
Balance, beginning of period	$ 1,578,312	$ 1,395,206
Net earnings attributable to Enstar Group Limited	86,114	59,392
Accretion of redeemable noncontrolling interests to redemption value	(1,803)	—
Balance, end of period	$ 1,662,623	$ 1,454,598
Noncontrolling Interest (excludes redeemable noncontrolling interests)		
Balance, beginning of period	$ 3,911	$ 217,970
Sale of noncontrolling shareholders' interest in subsidiaries	—	(182,819)
Dividends paid	—	680

Table of Contents

Contribution of capital	—	(323)
Net earnings (loss) attributable to noncontrolling interest	(270)	291
Foreign currency translation adjustments	—	(1,558)
Net movement in unrealized holding losses on investments	—	(123)
Balance, end of period	$3,641	$34,118

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, 2016 and 2015

	Six Months Ended June 30,	
	2016	2015
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$104,386	$71,699
Adjustments to reconcile net earnings to cash flows used in operating activities:		
Realized gains on sale of investments	(786)	(19,782)
Unrealized gains on investments	(75,165)	(11,989)
Other non-cash items	3,811	5,553
Depreciation and other amortization	24,320	28,262
Net change in trading securities held on behalf of policyholders	(996)	1,728
Sales and maturities of trading securities	1,666,796	1,669,290
Purchases of trading securities	(1,615,299)	(2,299,395)
Changes in:		
Reinsurance balances recoverable	132,938	210,401
Funds held by reinsured companies	(17)	20,773
Losses and loss adjustment expenses	(380,111)	(188,793)
Policy benefits for life and annuity contracts	(20,881)	(14,028)
Insurance and reinsurance balances payable	41,473	33,828
Unearned premiums	34,200	26,505
Other operating assets and liabilities	(131,001)	(12,097)
Net cash flows used in operating activities	(216,332)	(478,045)
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	$9,924	$56,369
Sales and maturities of available-for-sale securities	55,443	97,733
Purchase of available-for-sale securities	(47,798)	(48,548)
Maturities of held-to-maturity securities	15,302	5,246
Movement in restricted cash and cash equivalents	65,116	242,365
Purchase of other investments	(40,166)	(133,411)
Redemption of other investments	125,100	42,415
Other investing activities	(1,597)	(2,016)
Net cash flows provided by investing activities	181,324	260,153
FINANCING ACTIVITIES:		
Contribution by noncontrolling interest	$—	$680
Contribution by redeemable noncontrolling interest	—	15,728
Dividends paid to noncontrolling interest	—	(7,433)
Receipt of loans	154,048	374,700
Repayment of loans	(140,500)	(46,000)
Net cash flows provided by financing activities	13,548	337,675
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS	381	(6,226)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,079)	113,557

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	821,925	963,402
CASH AND CASH EQUIVALENTS, END OF PERIOD	$800,846	$1,076,959
Supplemental Cash Flow Information:		
Income taxes paid, net of refunds	$15,830	$13,343
Interest paid	$10,578	$7,952

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, 2016 and December 31, 2015

(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 consolidated 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, 2015. Inter-company accounts and transactions have been eliminated. Results of operations for subsidiaries acquired are included from the dates on which we acquired them. 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; and
- redeemable noncontrolling interests.

New Accounting Standards Adopted in 2016

Accounting Standards Update ("ASU") 2015-16, Business Combinations, Simplifying the Accounting for Measurement-Period Adjustment

In September 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-16, which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. Under the new guidance, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The adoption of this guidance did not have a material impact on our consolidated financial statements and disclosures.

ASU 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value or its Equivalent

In May 2015, the FASB issued ASU No. 2015-07, which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at the net asset value ("NAV") per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. In addition, the scope of current disclosure requirements for investments eligible to be measured at NAV is limited to investments for which the practical expedient is applied. While the adoption of this guidance impacted our disclosures, it did not have an impact on our consolidated financial statements.

ASU 2015-02, Amendments to the Consolidation Analysis

In February 2015, the FASB issued ASU 2015-02, which requires entities to evaluate whether they should consolidate certain legal entities. The new consolidation guidance changes the way entities evaluate whether (1) they should consolidate limited partnerships and similar entities; (2) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (3) variable interests in a VIE held by related parties of a registrant require the registrant to consolidate the VIE. The new guidance also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. The ASU also significantly changes how to evaluate voting rights for entities that are not similar to limited partnerships when determining whether the entity is a VIE, which may affect entities for which decision making rights are conveyed through a contractual arrangement. The adoption of this guidance did not have a material impact on our consolidated financial statements and disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

ASU 2016-13, Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, which amends the guidance on impairment of financial instruments and significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The ASU will replace the existing "incurred loss" approach, with an "expected loss" model for instruments measured at amortized cost and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount under the existing other-than-temporary-impairment model. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019. We are currently evaluating the impact of the adoption of this guidance 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 ASU is effective for interim and annual reporting periods beginning after December 15, 2016. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net)

In March 2016, the FASB issued ASU 2016-08, which amends the principal-versus agent implementation guidance and illustrations in its new revenue standard (ASU 2014-09). The ASU clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. Similar to ASU 2014-09, this guidance is effective for interim and reporting periods beginning after December 15, 2017, as amended by the one-year deferral and the early adoption provisions in ASU 2015-14. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

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 ASU is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

ASU 2016-02, Leases

In February 2016, the FASB issued ASU 2016-02, which amends the guidance on the classification, measurement and disclosure of leases for both lessors and lessees. The ASU requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet and to disclose qualitative and quantitative information about leasing arrangements. The ASU is effective for interim and annual reporting periods beginning after December 15, 2018. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

ASU 2016-01, Recognition and Measurement of Financial Instruments

In January 2016, the FASB issued ASU 2016-01, which amends the guidance on the classification and measurement of financial instruments. Although the ASU retains many of the current requirements, it significantly revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities, and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments. The ASU is effective for interim and annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

2. SIGNIFICANT NEW BUSINESS

2016

Coca-Cola

On August 5, 2016, we entered into a reinsurance transaction with The Coca-Cola Company and its subsidiaries (“Coca-Cola”) pursuant to which we reinsured certain of Coca-Cola’s retention and deductible risks under its subsidiaries’ U.S. workers’ compensation, auto liability, general liability, and product liability insurance coverage. We assumed total gross reserves of $109.1 million, received total assets of $102.7 million and recorded a deferred charge of $6.4 million, included in other assets. We have transferred approximately $109.1 million into trust to support our obligations under the reinsurance agreements. We provided a limited parental guarantee, subject to an overall maximum of approximately $27.0 million.

Allianz

On March 31, 2016, we completed our previously announced transaction with Allianz SE ("Allianz") to reinsure portfolios of Allianz's run-off business. Pursuant to the reinsurance agreement effective January 1, 2016, our subsidiary reinsured 50% of certain portfolios of workers' compensation, construction defect, and asbestos, pollution, and toxic tort business originally held by Fireman's Fund Insurance Company, and assumed net reinsurance reserves of approximately $1.1 billion. Affiliates of Allianz retained approximately $1.1 billion of reinsurance premium as funds withheld collateral for the obligations of our subsidiary under the reinsurance agreement, and we transferred approximately $110.0 million to a reinsurance trust to further support our subsidiary's obligations. Interest on the funds withheld is earned by us based upon an initial fixed interest rate. We have also provided a limited parental guarantee, which is subject to a maximum cap. The combined monetary total of the support offered by us through the trust and parental guarantee is calculated in accordance with contractually defined terms and is capped at $270.0 million.

In addition to the reinsurance transaction described above, we have entered into a claims consulting agreement with San Francisco Reinsurance Company, an affiliate of Allianz, with respect to the entire $2.2 billion portfolio, including the 50% share retained by affiliates of Allianz.

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

3. INVESTMENTS

We hold: (i) trading portfolios of fixed maturity investments, short-term investments and equities, carried at fair value; (ii) a held-to-maturity portfolio of fixed maturity investments carried at amortized cost; (iii) available-for-sale portfolios of short-term and fixed maturity investments carried at fair value; and (iv) 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, 2016	December 31, 2015
U.S. government and agency	$771,489	$ 750,957
Non-U.S. government	309,794	359,002
Corporate	2,612,211	2,631,682
Municipal	8,691	22,247
Residential mortgage-backed	474,820	391,247
Commercial mortgage-backed	281,052	284,575
Asset-backed	651,304	638,434
Total fixed maturity and short-term investments	5,109,361	5,078,144
Equities — U.S.	109,903	108,793
Equities — International	7,390	7,148
	$5,226,654	$ 5,194,085

Included within residential and commercial mortgage-backed securities as at June 30, 2016 were securities issued by U.S. governmental agencies with a fair value of $447.0 million (as at December 31, 2015: $359.4 million). Included within corporate securities as at June 30, 2016 were senior secured loans of $89.9 million (as at December 31, 2015: $94.4 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, 2016	Amortized Cost	Fair Value	% of Total Fair Value	
One year or less	$732,723	$723,589	14.2	%
More than one year through two years	927,837	928,798	18.2	%
More than two years through five years	1,266,491	1,279,337	25.0	%
More than five years through ten years	551,552	563,660	11.0	%
More than ten years	197,290	206,801	4.0	%
Residential mortgage-backed	473,782	474,820	9.3	%
Commercial mortgage-backed	280,949	281,052	5.5	%
Asset-backed	669,975	651,304	12.8	%
	$5,100,599	$5,109,361	100.0	%

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

Held-to-maturity
We hold a portfolio of held-to-maturity securities to support our annuity business. The amortized cost and fair values of our fixed maturity investments classified as held-to-maturity were as follows:

As at June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	$ 19,886	$ 1,068	$ (62)	$ 20,892
Non-U.S. government	33,233	1,193	—	34,426
Corporate	717,536	36,782	(1,457)	752,861
	$ 770,655	$ 39,043	$ (1,519)	$ 808,179

As at December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	$ 19,771	$ 8	$ (458)	$ 19,321
Non-U.S. government	40,503	48	(1,493)	39,058
Corporate	730,592	3,398	(23,298)	710,692
	$ 790,866	$ 3,454	$ (25,249)	$ 769,071

The contractual maturities of our fixed maturity investments classified as held-to-maturity 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, 2016	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	$ 17,293	$ 17,318	2.1 %
More than one year through two years	23,600	23,784	3.0 %
More than two years through five years	66,940	68,813	8.5 %
More than five years through ten years	107,660	110,845	13.7 %
More than ten years	555,162	587,419	72.7 %
	$ 770,655	$ 808,179	100.0 %

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

As at June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	$13,364	$ 164	$ —	$13,528
Non-U.S. government	89,836	2,530	(2,159)	90,207
Corporate	184,886	3,820	(1,945)	186,761
Municipal	6,500	102	—	6,602
Residential mortgage-backed	569	55	—	624
Asset-backed	4,578	30	—	4,608
	$299,733	$ 6,701	$ (4,104)	$302,330

As at December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	$25,102	$ 80	$ (341)	$24,841
Non-U.S. government	89,631	42	(3,889)	$85,784
Corporate	182,773	1,040	(3,429)	$180,384
Municipal	5,959	4	(36)	$5,927
Residential mortgage-backed	665	51	(1)	$715
Asset-backed	4,660	—	(10)	$4,650
	$308,790	$ 1,217	$ (7,706)	$302,301

The contractual maturities of our short-term and fixed maturity 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, 2016	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	$51,327	$50,119	16.6 %
More than one year through two years	68,189	67,500	22.3 %
More than two years through five years	87,040	86,492	28.6 %
More than five years through ten years	41,192	42,841	14.2 %
More than ten years	46,838	50,146	16.6 %
Residential mortgage-backed	569	624	0.2 %
Asset-backed	4,578	4,608	1.5 %
	$299,733	$302,330	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, 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						
Non-U.S. government	$—	$ —	$20,177	$ (2,159)	$20,177	$ (2,159)
Corporate	3,089	(137)	32,647	(1,808)	35,736	(1,945)
Total	$3,089	$ (137)	$52,824	$ (3,967)	$55,913	$ (4,104)
Fixed maturity investments, at amortized cost						
U.S. government and agency	$447	$ (62)	$—	$ —	$447	$ (62)
Corporate	18,469	(643)	37,889	(814)	56,358	(1,457)
Total	18,916	(705)	37,889	(814)	56,805	(1,519)
Total fixed maturity and short-term investments	$22,005	$ (842)	$90,713	$ (4,781)	$112,718	$ (5,623)

	12 Months or Greater		Less Than 12 Months		Total	
As at December 31, 2015	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	$523	$(2)	$21,694	$(339)	$22,217	$(341)
Non-U.S. government	18,995	(2,633)	50,080	(1,256)	69,075	(3,889)
Corporate	54,295	(2,394)	81,047	(1,035)	135,342	(3,429)
Municipal	—	—	4,609	(36)	4,609	(36)
Residential mortgage-backed	71	(1)	—	—	71	(1)
Asset-backed	4,649	(10)	—	—	4,649	(10)
Total	$78,533	$(5,040)	$157,430	$(2,666)	$235,963	$(7,706)
Fixed maturity investments, at amortized cost						
U.S. government and agency	$7,221	$(48)	$12,024	$(410)	$19,245	$(458)
Non-U.S. government	24,424	(1,255)	8,885	(238)	33,309	(1,493)
Corporate	209,000	(9,038)	330,833	(14,260)	539,833	(23,298)
Total	240,645	(10,341)	351,742	(14,908)	592,387	(25,249)
Total fixed maturity and short-term investments	$319,178	$(15,381)	$509,172	$(17,574)	$828,350	$(32,955)

As at June 30, 2016 and December 31, 2015, the number of securities classified as available-for-sale in an unrealized loss position was 120 and 332, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 13 and 124, respectively.

As at June 30, 2016 and December 31, 2015, the number of securities classified as held-to-maturity in an unrealized loss position was 14 and 109, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 6 and 53, respectively.

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

Other-Than-Temporary Impairment

For the six months ended June 30, 2016 and 2015, we did not recognize any other-than-temporary impairment losses on either our available-for-sale or held-to-maturity securities. We determined that no credit losses existed as at June 30, 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, 2015. There were no changes to our process during the six months ended June 30, 2016.

Credit Ratings

The following table sets forth the credit ratings of our fixed maturity and short-term investments as of June 30, 2016:

	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Non-Investment Grade	Not R
Fixed maturity and short-term investments, at fair value									
U.S. government and agency	$771,905	$785,017	12.6 %	$778,456	$6,561	$—	$—	$—	$—
Non-U.S. government	405,688	400,001	6.4 %	129,956	185,750	52,705	20,284	11,306	—
Corporate	2,777,899	2,798,972	45.1 %	164,171	451,121	1,312,900	721,700	143,010	6,070
Municipal	14,987	15,293	0.2 %	5,395	7,710	2,188	—	—	—
Residential mortgage-backed	474,351	475,444	7.6 %	465,622	452	6,029	2,302	1,036	3
Commercial mortgage-backed	280,949	281,052	4.5 %	114,235	34,730	73,995	15,538	2,674	39,88
Asset-backed	674,553	655,912	10.6 %	232,047	128,948	182,307	43,362	69,051	197
Total	5,400,332	5,411,691	87.0 %	1,889,882	815,272	1,630,124	803,186	227,077	46,15
% of total fair value				34.9 %	15.1 %	30.0 %	14.9 %	4.2 %	0.9
Fixed maturity investments, at amortized cost									
U.S. government and agency	19,886	20,892	0.3 %	19,491	1,378	—	—	—	23
Non-U.S. government	33,233	34,426	0.6 %	—	9,446	24,980	—	—	
Corporate	717,536	752,861	12.1 %	41,800	114,014	488,429	108,522	—	96
Total	770,655	808,179	13.0 %	61,291	124,838	513,409	108,522	—	119
% of total fair value				8.3 %	15.4 %	64.7 %	11.5 %	— %	0.1
Total fixed maturity and short-term investments	$6,170,987	$6,219,870	100.0%	$1,951,173	$940,110	$2,143,533	$911,708	$227,077	$46,2
% of total fair value				31.4 %	15.1 %	34.4 %	14.7 %	3.7 %	0.7

Table of Contents

Other Investments, at fair value

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

	June 30, 2016	December 31, 2015
Private equities and private equity funds	$229,756	$ 254,883
Fixed income funds	248,815	291,736
Fixed income hedge funds	111,543	109,400
Equity funds	163,050	147,390
Multi-strategy hedge fund	98,416	99,020
Real estate debt fund	—	54,829
CLO equities	65,156	61,702
CLO equity funds	13,513	13,928
Call options on equities	4,850	—
Other	1,059	1,144
	$936,158	$ 1,034,032

The valuation of our other investments is described in Note 4 - "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 60 days’ notice.
- Equity funds invest in a diversified portfolio of international publicly traded equity securities. The funds are eligible for bi-monthly redemption.
- Multi-strategy hedge fund comprises an investment in a hedge fund that invests in a variety of asset classes including funds, fixed income, equity securities and other investments. The fund is eligible for quarterly redemption after September 1, 2016. Once eligible, redemptions will be permitted quarterly with 60 days’ notice.
- Real estate debt fund invests primarily in U.S. commercial real estate loans and securities. A redemption request for this fund can be made 10 days after the date of any monthly valuation. The fund was fully redeemed as at March 31, 2016.
- 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 $3.6 million, part of a self-liquidating structure that is expected to pay out over two to six years. The other fund has a fair value of $9.9 million and is eligible for redemption in 2018.

Table of Contents

- Call options on equities comprise directly held options to purchase the common equity of publicly traded corporations.
- Other primarily comprises a fund that provides loans to educational institutions throughout the United States and its territories.

Investments of $0.8 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, 2016, we had unfunded commitments to private equity funds of $138.4 million.

Other Investments, at cost

Our other investments carried at cost of $129.6 million as of June 30, 2016 consist of life settlement contracts acquired during 2015. During the six months ended June 30, 2016 and 2015, net investment income included $10.0 million and $2.0 million, respectively, related to investments in life settlements. There were impairment charges of $2.9 million and nil recognized during the six month periods ended June 30, 2016 and 2015, respectively. The following table presents further information regarding our investments in life settlements as of June 30, 2016 and December 31, 2015.

	June 30, 2016			December 31, 2015		
	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	$436	$700	2	$417	$700
1 – 2 years	3	2,725	4,500	4	3,032	5,000
2 – 3 years	18	25,556	53,900	19	24,072	39,123
3 – 4 years	16	14,855	30,328	14	9,695	20,932
4 – 5 years	21	9,882	22,759	16	9,025	22,457
Thereafter	187	76,182	432,601	221	86,830	491,499
Total	247	$129,636	$544,788	276	$133,071	$579,711

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, 2016, our best estimate of the life insurance premiums required to keep the policies in force, payable in the 12 months ending June 30, 2017 and the four succeeding years ending June 30, 2021 is $17.5 million, $17.4 million, $17.5 million, $17.2 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 (Losses)

Components of net realized and unrealized gains (losses) for the three and six months ended June 30, 2016 and 2015 are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net realized gains on sale:				
Gross realized gains on fixed maturity securities, available-for-sale	$114	$39	$379	$153
Gross realized (losses) on fixed maturity securities, available-for-sale	(1)	(1)	(244)	(9)
Net realized investment gains (losses) on fixed maturity securities, trading	1,535	1,886	(377)	3,752
Net realized investment gains on equity securities, trading	555	5,169	1,028	15,886
Total net realized gains on sale	$2,203	$7,093	$786	$19,782
Net unrealized gains (losses):				
Fixed maturity securities, trading	$40,472	$(22,953)	$82,212	$(9,065)
Equity securities, trading	617	(6,445)	2,223	(13,564)
Other investments	(5,305)	11,056	(9,270)	34,618
Total net unrealized gains (losses)	35,784	(18,342)	75,165	11,989
Net realized and unrealized gains (losses)	$37,987	$(11,249)	$75,951	$31,771

The gross realized gains and losses on available-for-sale securities included in the table above resulted from sales of $18.2 million and $33.6 million for the three and six months ended June 30, 2016, respectively, and $16.5 million and $59.8 million for the three and six months ended June 30, 2015, respectively.

Net Investment Income

Major categories of net investment income for the three and six months ended June 30, 2016 and 2015 are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Fixed maturity investments	$40,531	$28,551	$77,109	$54,800
Short-term investments and cash and cash equivalents	870	1,387	2,049	4,106
Equity securities	1,387	1,315	2,509	2,996
Other investments	5,693	3,558	11,727	4,440
Funds held	7,633	(184)	15,237	(10)
Life settlements and other	1,335	2,788	10,161	3,095
Gross investment income	57,449	37,415	118,792	69,427
Investment expenses	(3,226)	(2,760)	(4,506)	(4,355)
Net investment income	$54,223	$34,655	$114,286	$65,072

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 $446.3 million and $511.3 million, as of June 30, 2016 and December 31, 2015, respectively, was as follows:

	June 30, 2016	December 31, 2015
Collateral in trust for third party agreements	$2,863,608	$ 3,053,692
Assets on deposit with regulatory authorities	955,123	915,346
Collateral for secured letter of credit facilities	195,277	212,544
Funds at Lloyd's (1)	350,146	382,624
	$4,364,154	$ 4,564,206

(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. As at June 30, 2016, our combined Funds at Lloyd's were comprised of cash and investments of $312.2 million and letters of credit supported by collateral of $37.9 million.

4. 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.

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

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

	June 30, 2016			
	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	$—	$ 785,017	$ —	$785,017
Non-U.S. government	—	400,001	—	400,001
Corporate	—	2,771,188	27,784	2,798,972
Municipal	—	15,293	—	15,293
Residential mortgage-backed	—	472,663	2,781	475,444
Commercial mortgage-backed	—	226,217	54,835	281,052
Asset-backed	—	579,208	76,704	655,912
Equities — U.S.	102,734	7,169	—	109,903
Equities — International	2,850	4,540	—	7,390
Other investments	—	310,266	80,470	390,736
Total investments	$105,584	$ 5,571,562	$ 242,574	$5,919,720

	December 31, 2015			
	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	$—	$ 775,798	$ —	$775,798
Non-U.S. government	—	444,786	—	444,786
Corporate	—	2,812,066	—	2,812,066
Municipal	—	28,174	—	28,174
Residential mortgage-backed	—	391,962	—	391,962
Commercial mortgage-backed	—	255,169	29,406	284,575
Asset-backed	—	458,328	184,756	643,084
Equities — U.S.	99,467	9,326	—	108,793
Equities — International	2,702	4,446	—	7,148
Other investments	—	321,076	77,016	398,092
Total investments	$102,169	$ 5,501,131	$ 291,178	$5,894,478

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, 2016	December 31, 2015
Other investments measured at fair value	$390,736	$ 398,092
Other investments measured at NAV as practical expedient	545,422	635,940
Total other investments shown on balance sheets	$936,158	$ 1,034,032

19

Table of Contents

Valuation Methodologies of Financial Instruments Measured at Fair Value

Fixed Maturity Investments

The fair values for all securities in the fixed maturity investments portfolio 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. 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.

- 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. 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, broker-dealer quotes, prepayment speeds and default rates. 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, 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. 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.

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 the 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 and multi-strategy 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.
- Our investment in the real estate debt fund is valued based on the most recently available NAV from the external fund manager. The fair value of this investment is measured using the NAV practical expedient and therefore has not been categorized within the fair value hierarchy. As at March 31, 2016 this fund was fully redeemed.
- 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 judgmental inputs because they are based on the historical average of actual spreads and the weighted average life of the current underlying

Table of Contents

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 the manager/broker. 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 the 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.
- For our investments in call options on publicly traded equities, we measure fair value by obtaining the latest option price as of our reporting date. These are classified as Level 2.

Changes in Leveling of Financial Instruments

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. During the six months ended June 30, 2016, we transferred $28.2 million of corporate, $24.1 million of asset-backed, $40.1 million of commercial mortgaged-backed and $2.8 million of residential mortgaged-backed securities from Level 2 to Level 3. The transfers from Level 2 to Level 3 were securities valued using single prices for which we were unable to obtain sufficient information to determine whether the inputs used were observable. 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. During the six months ended June 30, 2016, we transferred $12.1 million of commercial mortgaged-backed and $126.2 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. There were no transfers between Levels 1 and 2.

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, 2016 and 2015:

	Three Months Ended June 30, 2016				Three Months Ended June 30, 2015			
	Fixed Maturity Investments	Other Investments	Equity Securities	Total	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Beginning fair value	$112,577	$ 74,289	$ —	$186,866	$ —	$427,362	$ —	$427,362
Purchases	32,616	664	—	33,280	—	54,407	—	54,407
Sales	(12,618)	—	—	(12,618)	—	(28,533)	—	(28,533)
Total realized and unrealized gains	1,576	5,517	—	7,093	—	10,669	—	10,669
Net transfers into (out of) Level 3	27,953	—	—	27,953	—	—	—	—
Ending fair value	$162,104	$ 80,470	$ —	$242,574	$ —	$463,905	$ —	$463,905

22

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, 2016 and 2015:

	Six Months Ended June 30, 2016				Six Months Ended June 30, 2015			
	Fixed Maturity Investments	Other Investments	Equity Securities	Total	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Beginning fair value	$214,162	$ 77,016	$ —	$291,178	$600	$ 349,790	$ 4,850	$355,240
Purchases	32,616	6,885	—	39,501	—	136,385	—	136,385
Sales	(36,720)	(4,658)	—	(41,378)	(600)	(42,415)	(5,000)	(48,015)
Total realized and unrealized gains (losses)	(4,851)	1,227	—	(3,624)	—	20,145	150	20,295
Net transfers into (out of) Level 3	(43,103)	—	—	(43,103)	—	—	—	—
Ending fair value	$162,104	$ 80,470	$ —	$242,574	$—	$ 463,905	$ —	$463,905

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.

Disclosure of Fair Values for Financial Instruments Carried at Cost

The following tables present our fair value hierarchy for those assets carried at cost or amortized cost in the unaudited condensed consolidated balance sheet but for which disclosure of the fair value is required:

	June 30, 2016				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Carrying Value
Fixed maturity investments, held-to-maturity:					
U.S. government and agency	$ —	$ 20,892	$ —	$ 20,892	$ 19,886
Non-U.S. government	—	34,426	—	34,426	33,233
Corporate	—	752,861	—	752,861	717,536
Sub-total	—	808,179	—	808,179	770,655
Other investments:					
Life settlements	—	—	126,442	126,442	129,636
Total	$ —	$ 808,179	$ 126,442	$ 934,621	$ 900,291

	December 31, 2015				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value	Carrying Value
Fixed maturity investments, held-to-maturity:					
U.S. government and agency	$ —	$ 19,321	$ —	$ 19,321	$ 19,771
Non-U.S. government	—	39,058	—	39,058	40,503
Corporate	—	710,692	—	710,692	730,592
Sub-total	—	769,071	—	769,071	790,866
Other investments:					
Life settlements	—	—	130,268	130,268	133,071
Total	$ —	$ 769,071	$ 130,268	$ 899,339	$ 923,937

The fair value of investments in life settlement contracts, in the table above, 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.

Disclosure of fair value of amounts relating to insurance contracts is not required. Our remaining assets and liabilities were generally carried at cost or amortized cost, which due to their short-term nature approximates fair value as of June 30, 2016 and December 31, 2015.

5. DERIVATIVE INSTRUMENTS

From time to time, we may utilize derivative instruments 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.

The following table sets forth the estimated fair value of derivative instruments recorded within other investments on the unaudited condensed consolidated balance sheet as at June 30, 2016 and the unrealized losses on derivative instruments recorded in net earnings for the three and six months ended June 30, 2016:

		Fair Value		Unrealized losses in net earnings	
	Purchase Date	June 30, 2016	December 31, 2015	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Call options on equities	March 1, 2016	$4,850	$ —	$(1,210)	$(650)

The derivatives in the table above are not designated as hedging instruments. We had no derivative instruments as at June 30, 2015 and December 31, 2015 or during the three and six months ended June 30, 2015.

Subsequent to June 30, 2016, we entered into forward exchange contracts for notional amounts of AUD $63.0 million and CAD $50.0 million. These contracts are designated as hedges of the net investments in our Australian and Canadian operations.

6. REINSURANCE BALANCES RECOVERABLE

The following tables provide the total reinsurance balances recoverable as at June 30, 2016 and December 31, 2015:

	June 30, 2016				
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total
Recoverable from reinsurers on unpaid:					
Outstanding losses	$502,667	$7,142	$171,289	$20,940	$702,038
IBNR	441,240	17,798	121,997	298	581,333
Fair value adjustments	(16,182)	1,916	(4,085)	—	(18,351)
Total reinsurance reserves recoverable	927,725	26,856	289,201	21,238	1,265,020
Paid losses recoverable	62,454	762	15,885	994	80,095
	$990,179	$27,618	$305,086	$22,232	$1,345,115

	December 31, 2015				
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total
Recoverable from reinsurers on unpaid:					
Outstanding losses	$587,164	$6,772	$182,076	$22,786	$798,798
IBNR	465,211	16,581	123,732	306	605,830
Fair value adjustments	(17,628)	2,499	(6,025)	—	(21,154)
Total reinsurance reserves recoverable	1,034,747	25,852	299,783	23,092	1,383,474
Paid losses recoverable	72,213	430	16,568	1,319	90,530
	$1,106,960	$26,282	$316,351	$24,411	$1,474,004

Our insurance and reinsurance run-off subsidiaries, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed. On an annual basis, both Atrium and StarStone purchase a tailored outwards reinsurance program designed to manage their risk profiles. The majority of Atrium’s and StarStone's third-party reinsurance cover is with highly rated reinsurers or is collateralized by letters of credit.

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.

As of June 30, 2016 and December 31, 2015, we had reinsurance balances recoverable of approximately $1.35 billion and $1.47 billion, respectively. The decrease of $128.9 million in reinsurance balances recoverable was primarily a result of commutations in our Non-life Run-off segment and cash collections made during the six months ended June 30, 2016 in our Non-life Run-off and StarStone segments.

Top Ten Reinsurers

	June 30, 2016						December 31, 2015				
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total	% of Total	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total
Top ten reinsurers	$661,380	$22,369	$146,115	$12,211	$842,075	62.6 %	$713,743	$21,394	$155,171	$13,254	$903,562
Other reinsurers > $1 million	317,169	4,508	156,576	8,298	486,551	36.2 %	383,898	4,253	158,417	8,363	554,931
Other reinsurers < $1 million	11,630	741	2,395	1,723	16,489	1.2 %	9,319	635	2,763	2,794	15,511
Total	$990,179	$27,618	$305,086	$22,232	$1,345,115	100.0%	$1,106,960	$26,282	$316,351	$24,411	$1,474,004

Seven of the top ten external reinsurers, as at June 30, 2016 and December 31, 2015, were rated A- or better, with the remaining three being non-rated reinsurers from which $297.0 million was recoverable (December 31, 2015: $337.6 million recoverable from three reinsurers). For the three non-rated reinsurers, 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, 2016, reinsurance balances recoverable of $158.4 million (December 31, 2015: $165.6 million) related to Lloyd’s syndicates and represented 10% or more of total reinsurance balances recoverable. Lloyd’s is rated A+ 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, 2016 and December 31, 2015. The provisions for bad debt all relate to the Non-life Run-off segment.

	June 30, 2016				December 31, 2015			
	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	$983,600	$39,264	$944,336	4.0 %	$1,051,927	$46,969	$1,004,958	4.5 %
Reinsurers rated below A-, secured	338,795	—	338,795	— %	388,399	—	388,399	— %
Reinsurers rated below A-, unsecured	219,445	157,461	61,984	71.8 %	244,005	163,358	80,647	66.9 %
Total	$1,541,840	$196,725	$1,345,115	12.8 %	$1,684,331	$210,327	$1,474,004	12.5 %

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

7. 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 9 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015 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, 2016 and December 31, 2015:

	June 30, 2016				December 31, 2015			
	Non-life Run-off	Atrium	StarStone	Total	Non-life Run-off	Atrium	StarStone	Total
Outstanding losses	$2,991,786	$69,268	$476,941	$3,537,995	$2,757,774	$68,913	$457,175	$3,283,862
IBNR	2,385,358	129,422	518,558	3,033,338	1,991,009	115,613	477,990	2,584,612
Fair value adjustments	(151,017)	14,534	(1,005)	(137,488)	(163,329)	16,491	(1,487)	(148,325)
Total	$5,226,127	$213,224	$994,494	$6,433,845	$4,585,454	$201,017	$933,678	$5,720,149

The overall increase in the liability for losses and LAE between December 31, 2015 and June 30, 2016 was primarily attributable to the assumed reinsurance agreement with Allianz in our Non-life Run-off segment 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, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance as at beginning of period	$6,641,507	$5,724,623	$5,720,149	$4,509,421
Less: reinsurance reserves recoverable	1,302,738	1,518,102	1,360,382	1,154,196
Less: deferred charges on retroactive reinsurance	254,300	—	255,911	—
Net balance as at beginning of period	5,084,469	4,206,521	4,103,856	3,355,225
Net incurred losses and LAE:				
Current period	126,634	121,335	241,936	234,349
Prior periods	(30,172)	(55,435)	(62,256)	(98,313)
Total net incurred losses and LAE	96,462	65,900	179,680	136,036
Net paid losses:				
Current period	(17,022)	(21,490)	(22,356)	(32,654)
Prior periods	(203,010)	(194,485)	(389,413)	(312,641)
Total net paid losses	(220,032)	(215,975)	(411,769)	(345,295)
Effect of exchange rate movement	(28,127)	24,723	(23,246)	(29,423)
Acquired on purchase of subsidiaries	10,019	—	10,019	774,758
Assumed business	—	305,763	1,084,251	495,631
Net balance as at June 30	4,942,791	4,386,932	4,942,791	4,386,932
Plus: reinsurance reserves recoverable	1,243,782	1,491,113	1,243,782	1,491,113
Plus: deferred charge on retroactive reinsurance	247,272	265,426	247,272	265,426
Balance as at June 30	$6,433,845	$6,143,471	$6,433,845	$6,143,471

27

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, 2016 and 2015:

	Three Months Ended June 30, 2016				Three Months Ended June 30, 2015			
	Non-life Run-off	Atrium	StarStone	Total	Non-life Run-off	Atrium	StarStone	Total
Net losses paid	$143,056	$12,523	$64,453	$220,032	$164,440	$12,121	$39,414	$215,975
Net change in case and LAE reserves	(74,560)	2,035	21,736	(50,789)	(104,330)	136	46,729	(57,465)
Net change in IBNR reserves	(102,836)	3,538	17,285	(82,013)	(75,957)	5,186	(5,690)	(76,461)
Increase (reduction) in estimates of net ultimate losses	(34,340)	18,096	103,474	87,230	(15,847)	17,443	80,453	82,049
Reduction in provisions for bad debt	(5,184)	—	—	(5,184)	(625)	—	—	(625)
Increase (reduction) in provisions for unallocated LAE	(6,571)	50	758	(5,763)	(7,711)	(8)	1,055	(6,664)
Amortization of fair value adjustments	21,405	(1,013)	(213)	20,179	(4,687)	(3,678)	(495)	(8,860)
Net incurred losses and LAE	$(24,690)	$17,133	$104,019	$96,462	$(28,870)	$13,757	$81,013	$65,900

	Six Months Ended June 30, 2016				Six Months Ended June 30, 2015			
	Non-life Run-off	Atrium	StarStone	Total	Non-life Run-off	Atrium	StarStone	Total
Net losses paid	$275,369	$20,271	$116,129	$411,769	$229,700	$24,032	$91,563	$345,295
Net change in case and LAE reserves	(183,345)	263	34,391	(148,691)	(111,330)	(883)	44,943	(67,270)
Net change in IBNR reserves	(139,899)	13,429	44,372	(82,098)	(113,235)	1,376	20,049	(91,810)
Increase (reduction) in estimates of net ultimate losses	(47,875)	33,963	194,892	180,980	5,135	24,525	156,555	186,215
Reduction in provisions for bad debt	(6,630)	—	—	(6,630)	(20,439)	—	—	(20,439)
Increase (reduction) in provisions for unallocated LAE	(14,361)	134	1,768	(12,459)	(21,686)	(70)	1,711	(20,045)
Amortization of fair value adjustments	20,622	(1,375)	(1,458)	17,789	(4,980)	(3,678)	(1,037)	(9,695)
Net incurred losses and LAE	$(48,244)	$32,722	$195,202	$179,680	$(41,970)	$20,777	$157,229	$136,036

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

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, 2016 and 2015 for the Non-life Run-off segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance as at beginning of period	$5,459,216	$4,693,262	$4,585,454	$3,435,010
Less: reinsurance reserves recoverable	977,096	1,210,933	1,034,747	800,709
Less: deferred charges on retroactive insurance	254,300	—	255,911	—
Net balance as at beginning of period	4,227,820	3,482,329	3,294,796	2,634,301
Net incurred losses and LAE:				
Current period	518	22,547	6,587	43,273
Prior periods	(25,208)	(51,417)	(54,831)	(85,243)
Total net incurred losses and LAE	(24,690)	(28,870)	(48,244)	(41,970)
Net paid losses:				
Current period	(2,058)	(9,434)	(4,048)	(14,005)
Prior periods	(140,998)	(155,006)	(271,321)	(215,695)
Total net paid losses	(143,056)	(164,440)	(275,369)	(229,700)
Effect of exchange rate movement	(18,963)	25,876	(14,323)	(12,362)
Acquired on purchase of subsidiaries	10,019	—	10,019	774,758
Assumed business	0	305,763	1,084,251	495,631
Net balance as at June 30	4,051,130	3,620,658	4,051,130	3,620,658
Plus: reinsurance reserves recoverable	927,725	1,178,053	927,725	1,178,053
Plus: deferred charge on retroactive reinsurance	247,272	265,426	247,272	265,426
Balance as at June 30	$5,226,127	$5,064,137	$5,226,127	$5,064,137

Net incurred losses and LAE in the Non-life Run-off segment for the three months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,					
	2016			2015		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$140,998	$2,058	$143,056	$155,006	$9,434	$164,440
Net change in case and LAE reserves	(74,832)	272	(74,560)	(108,819)	4,489	(104,330)
Net change in IBNR reserves	(101,240)	(1,596)	(102,836)	(84,581)	8,624	(75,957)
Increase (reduction) in estimates of net ultimate losses	(35,074)	734	(34,340)	(38,394)	22,547	(15,847)
Increase (reduction) in provisions for bad debt	(5,184)	—	(5,184)	(625)	—	(625)
Increase (reduction) in provisions for unallocated LAE	(6,355)	(216)	(6,571)	(7,711)	—	(7,711)
Amortization of fair value adjustments	21,405	—	21,405	(4,687)	—	(4,687)
Net incurred losses and LAE	$(25,208)	$518	$(24,690)	$(51,417)	$22,547	$(28,870)

Net change in case and LAE reserves comprises the movement during the year 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, 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

29

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 $35.1 million, a reduction in provisions for bad debt of $5.2 million and a reduction in provisions for unallocated LAE of $6.4 million, relating to 2016 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $21.4 million.

The reduction in provisions for bad debt of $5.2 million was a result of the collection of certain reinsurance recoverables against which provisions for bad debt had been provided in earlier periods.

Three Months Ended June 30, 2015

The reduction in net incurred losses and LAE for the three months ended June 30, 2015 of $28.9 million included net incurred losses and LAE of $22.5 million related to current period net earned premium of $17.2 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $22.5 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $51.4 million, which was attributable to a reduction in estimates of net ultimate losses of $38.4 million, a reduction in provisions for bad debt of $0.6 million, a reduction in provisions for unallocated LAE of $7.7 million, relating to 2015 run-off activity, and amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $4.7 million.

Net incurred losses and LAE in the Non-life Run-off segment for the six months ended June 30, 2016 and 2015 were as follows:

	Six Months Ended June 30,					
	2016			2015		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$271,321	$4,048	$275,369	$215,695	$14,005	$229,700
Net change in case and LAE reserves	(183,801)	456	(183,345)	(118,813)	7,483	(111,330)
Net change in IBNR reserves	(141,753)	1,854	(139,899)	(135,020)	21,785	(113,235)
Increase (reduction) in estimates of net ultimate losses	(54,233)	6,358	(47,875)	(38,138)	43,273	5,135
Increase (reduction) in provisions for bad debt	(6,630)	—	(6,630)	(20,439)	—	(20,439)
Increase (reduction) in provisions for unallocated LAE	(14,590)	229	(14,361)	(21,686)	—	(21,686)
Amortization of fair value adjustments	20,622	—	20,622	(4,980)	—	(4,980)
Net incurred losses and LAE	$(54,831)	$6,587	$(48,244)	$(85,243)	$43,273	$(41,970)

Six Months Ended June 30, 2016

The reduction in net incurred losses and LAE for the six months ended June 30, 2016 of $48.2 million included net incurred losses and LAE of $6.6 million related to current period net earned premium of $5.0 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $6.6 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $54.8 million, which was attributable to a reduction in estimates of net ultimate losses of $54.2 million, a reduction in provisions for bad debt of $6.6 million and a reduction in provisions for unallocated LAE of $14.6 million, relating to 2016 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $20.6 million.

The reduction in provisions for bad debt of $6.6 million was a result of the collection of certain reinsurance recoverables against which provisions for bad debt had been provided in earlier periods.

Six Months Ended June 30, 2015

The reduction in net incurred losses and LAE for the six months ended June 30, 2015 of $42.0 million included net incurred losses and LAE of $43.3 million related to current period net earned premium of $35.8 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $43.3 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $85.2 million, which was attributable to a reduction in estimates of net ultimate losses of $38.1 million, reduction in provisions for bad debt of $20.4 million, a reduction in provisions for unallocated LAE liabilities of $21.7 million, relating to 2015 run-off activity, and amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $5.0 million.

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

Atrium
The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance as at beginning of period	$209,919	$202,873	$201,017	$212,611
Less: reinsurance reserves recoverable	26,249	26,629	25,852	28,278
Net balance as at beginning of period	183,670	176,244	175,165	184,333
Net incurred losses and LAE:				
Current period	20,568	17,495	36,631	32,373
Prior periods	(3,435)	(3,738)	(3,909)	(11,596)
Total net incurred losses and LAE	17,133	13,757	32,722	20,777
Net paid losses:				
Current period	(5,255)	(4,538)	(7,493)	(7,408)
Prior periods	(7,268)	(7,583)	(12,778)	(16,624)
Total net paid losses	(12,523)	(12,121)	(20,271)	(24,032)
Effect of exchange rate movement	(1,912)	1,608	(1,248)	(1,590)
Net balance as at June 30	186,368	179,488	186,368	179,488
Plus: reinsurance reserves recoverable	26,856	26,011	26,856	26,011
Balance as at June 30	$213,224	$205,499	$213,224	$205,499

Net incurred losses and LAE in the Atrium segment for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,					
	2016			2015		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$7,268	$5,255	$12,523	$7,583	$4,538	$12,121
Net change in case and LAE reserves	(3,391)	5,426	2,035	(3,946)	4,082	136
Net change in IBNR reserves	(6,181)	9,719	3,538	(3,560)	8,746	5,186
Increase (reduction) in estimates of net ultimate losses	(2,304)	20,400	18,096	77	17,366	17,443
Increase (reduction) in provisions for unallocated LAE	(118)	168	50	(137)	129	(8)
Amortization of fair value adjustments	(1,013)	—	(1,013)	(3,678)	—	(3,678)
Net incurred losses and LAE	$(3,435)	$20,568	$17,133	$(3,738)	$17,495	$13,757

	Six Months Ended June 30,					
	2016			2015		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$12,778	$7,493	$20,271	$16,624	$7,408	$24,032
Net change in case and LAE reserves	(7,351)	7,614	263	(7,657)	6,774	(883)
Net change in IBNR reserves	(7,772)	21,201	13,429	(16,553)	17,929	1,376
Increase (reduction) in estimates of net ultimate losses	(2,345)	36,308	33,963	(7,586)	32,111	24,525
Increase (reduction) in provisions for unallocated LAE	(189)	323	134	(332)	262	(70)
Amortization of fair value adjustments	(1,375)	—	(1,375)	(3,678)	—	(3,678)
Net incurred losses and LAE	$(3,909)	$36,631	$32,722	$(11,596)	$32,373	$20,777

31

StarStone

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance as at beginning of period	$972,372	$828,488	$933,678	$861,800
Less: reinsurance reserves recoverable	299,393	280,540	299,783	325,209
Net balance as at beginning of period	672,979	547,948	633,895	536,591
Net incurred losses and LAE:				
Current period	105,548	81,293	198,718	158,703
Prior periods	(1,529)	(280)	(3,516)	(1,474)
Total net incurred losses and LAE	104,019	81,013	195,202	157,229
Net paid losses:				
Current period	(9,709)	(7,518)	(10,815)	(11,241)
Prior periods	(54,744)	(31,896)	(105,314)	(80,322)
Total net paid losses	(64,453)	(39,414)	(116,129)	(91,563)
Effect of exchange rate movement	(7,252)	(2,761)	(7,675)	(15,471)
Net balance as at June 30	705,293	586,786	705,293	586,786
Plus: reinsurance reserves recoverable	289,201	287,049	289,201	287,049
Balance as at June 30	$994,494	$873,835	$994,494	$873,835

Net incurred losses and LAE in the StarStone segment for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,					
	2016			2015		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$54,744	$9,709	$64,453	$31,896	$7,518	$39,414
Net change in case and LAE reserves	(26,737)	48,473	21,736	6,397	40,332	46,729
Net change in IBNR reserves	(28,321)	45,606	17,285	(38,584)	32,894	(5,690)
Increase (reduction) in estimates of net ultimate losses	(314)	103,788	103,474	(291)	80,744	80,453
Increase (reduction) in provisions for unallocated LAE	(1,002)	1,760	758	506	549	1,055
Amortization of fair value adjustments	(213)	—	(213)	(495)	—	(495)
Net incurred losses and LAE	$(1,529)	$105,548	$104,019	$(280)	$81,293	$81,013

	Six Months Ended June 30,					
	2016			2015		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$105,314	$10,815	$116,129	$80,322	$11,241	$91,563
Net change in case and LAE reserves	(22,102)	56,493	34,391	(3,934)	48,877	44,943
Net change in IBNR reserves	(83,234)	127,606	44,372	(76,262)	96,311	20,049
Increase (reduction) in estimates of net ultimate losses	(22)	194,914	194,892	126	156,429	156,555
Increase (reduction) in provisions for unallocated LAE	(2,036)	3,804	1,768	(563)	2,274	1,711
Amortization of fair value adjustments	(1,458)	—	(1,458)	(1,037)	—	(1,037)
Net incurred losses and LAE	$(3,516)	$198,718	$195,202	$(1,474)	$158,703	$157,229

32

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

8. POLICY BENEFITS FOR LIFE AND ANNUITY CONTRACTS

Policy benefits for life and annuity contracts as at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016	December 31, 2015
Life	$419,453	$436,603
Annuities	916,729	921,654
	1,336,182	1,358,257
Fair value adjustments	(49,906)	(53,560)
	$1,286,276	$1,304,697

Refer to Note 10 of the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015 for more information on establishing policy benefit reserves.

9. PREMIUMS WRITTEN AND EARNED

The following table provides a summary of net premiums written and earned in our Non-life Run-off, Atrium, StarStone and Life and Annuities segments for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Non-life Run-off								
Gross	$7,066	$9,216	$14,797	$53,184	$13,763	$17,163	$24,914	$78,157
Ceded	(4,290)	(4,740)	(39,590)	(35,886)	(5,716)	(7,252)	(39,867)	(42,367)
Net	$2,776	$4,476	$(24,793)	$17,298	$8,047	$9,911	$(14,953)	$35,790
Atrium								
Gross	$37,781	$35,908	$35,786	$37,913	$79,299	$71,342	$84,699	$76,067
Ceded	(4,619)	(4,150)	(3,966)	(3,956)	(7,957)	(7,673)	(8,521)	(8,238)
Net	$33,162	$31,758	$31,820	$33,957	$71,342	$63,669	$76,178	$67,829
StarStone								
Gross	$223,368	$208,548	$241,057	$195,963	$440,412	$402,664	$431,754	$364,495
Ceded	(41,023)	(37,513)	(59,692)	(58,267)	(107,930)	(77,547)	(125,566)	(103,177)
Net	$182,345	$171,035	$181,365	$137,696	$332,482	$325,117	$306,188	$261,318
Life and Annuities								
Life	$20,533	$19,659	$22,922	$23,072	$38,459	$37,640	$45,655	$45,992
Total	$238,816	$226,928	$211,314	$212,023	$450,330	$436,337	$413,068	$410,929

10. GOODWILL, INTANGIBLE ASSETS AND DEFERRED CHARGE

The following table presents a reconciliation of the beginning and ending goodwill, intangible assets and the deferred charge during the six months ended June 30, 2016:

	Goodwill	Intangible assets with a definite life - Other	Intangible assets with an indefinite life	Total	Intangible assets with a definite life - FVA	Other assets - Deferred Charge
Balance as at December 31, 2015	$73,071	$31,202	$87,031	$191,304	$180,730	$255,911
Amortization	—	(3,749)	—	(3,749)	(11,687)	(8,639)
Balance as at June 30, 2016	$73,071	$27,453	$87,031	$187,555	$169,043	$247,272

Refer to Note 12 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015 for more information on goodwill, intangible assets and the deferred charge.

Intangible asset amortization for the three and six months ended June 30, 2016 and 2015 was $15.3 million and $15.4 million, respectively, compared to $(4.9) million and $(2.2) million for the comparative periods in 2015.

The gross carrying value, accumulated amortization and net carrying value of intangible assets by type and the deferred charge at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016			December 31, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets with a definite life:						
Fair value adjustments:						
Losses and LAE liabilities	$458,202	$(320,714)	$137,488	$456,110	$(307,785)	$148,325
Reinsurance balances recoverable	(175,924)	157,573	(18,351)	(175,774)	154,619	(21,155)
Policy benefits for life and annuity contracts	86,332	(36,426)	49,906	86,332	(32,772)	53,560
Total	$368,610	$(199,567)	$169,043	$366,668	$(185,938)	$180,730
Other:						
Distribution channel	$20,000	$(3,445)	$16,555	$20,000	$(2,777)	$17,223
Technology	15,000	(9,294)	5,706	15,000	(6,561)	8,439
Brand	7,000	(1,808)	5,192	7,000	(1,460)	5,540
Total	$42,000	$(14,547)	$27,453	$42,000	$(10,798)	$31,202
Intangible assets with an indefinite life:						
Lloyd's syndicate capacity	$37,031	$—	$37,031	$37,031	$—	$37,031
Licenses	19,900	—	19,900	19,900	—	19,900
Management contract	30,100	—	30,100	30,100	—	30,100
Total	$87,031	$—	$87,031	$87,031	$—	$87,031
Deferred charge on retroactive reinsurance	$271,176	$(23,904)	$247,272	$271,176	$(15,265)	$255,911

11. LOANS PAYABLE

We utilize debt facilities primarily for acquisitions and, from time to time, for general corporate purposes. Under these facilities, loans payable and accrued interest as of June 30, 2016 and December 31, 2015 were as follows:

Facility	Origination Date	Term	June 30, 2016	December 31, 2015
EGL Revolving Credit Facility	September 16, 2014	5 years	$549,798	$ 505,750
Sussex Facility	December 24, 2014	4 years	63,500	94,000
Total long-term bank debt			613,298	599,750
Accrued interest			732	500
Total loans payable			$614,030	$ 600,250

For the three months ended June 30, 2016 and 2015, interest expense was $5.4 million and $4.8 million, respectively. For the six months ended June 30, 2016 and 2015, interest expense was $10.8 million and $8.8 million, respectively.

EGL Revolving Credit Facility

This 5-year revolving credit facility, originated on September 16, 2014, and amended on February 27, 2015, February 15, 2016, and most recently on August 5, 2016, is among Enstar Group Limited and certain of its subsidiaries, as borrowers and as guarantors, and various financial institutions. We are permitted to borrow up to an aggregate of $665.0 million, and as of August 5, 2016 we have an option to obtain additional commitments of up to $166.25 million. As of June 30, 2016, there was $115.2 million of available unutilized capacity under this facility. We are in compliance with the covenants of the EGL Revolving Credit Facility.

During the three months ended June 30, 2016 we borrowed €75.0 million. This has been designated as a non-derivative hedge of our net investment in certain subsidiaries whose functional currency is denominated in Euros. The foreign exchange effect of revaluing these Euro borrowings resulted in a gain of $2.1 million recognized in the currency translation adjustment within accumulated other comprehensive income (loss) for the three and six months ended June 30, 2016. This gain was offset against an equivalent loss recognized upon the translation of those subsidiaries' financial statements from functional currency into U.S. dollars. There were no ineffective portions of the net investment hedge during the three or six months ended June 30, 2016, which would have required reclassification from accumulated other comprehensive income (loss) into earnings.

Sussex Facility

On December 24, 2014, we entered into a 4-year term loan (the "Sussex Facility", formerly called the Companion Facility) with two financial institutions. This facility was fully utilized to initially borrow $109.0 million to fund 50% of the consideration payable for the acquisition of Sussex, which was completed on January 27, 2015. During 2015, we repaid $15.0 million and during the six months ended June 30, 2016, we repaid $30.5 million of the outstanding principal on the facility, bringing the outstanding principal to $63.5 million. We are in compliance with the covenants of the Sussex Facility.

Refer to Note 13 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015 for further information on the terms of the above facilities.

Table of Contents

12. NONCONTROLLING INTERESTS

Redeemable Noncontrolling Interest

Redeemable noncontrolling interest ("RNCI") as of June 30, 2016 and December 31, 2015 comprised the ownership interests held by Trident (39.32%) and Dowling (1.71%) in our subsidiary North Bay Holdings Limited ("North Bay"). North Bay owns our investments in StarStone and Atrium as well as certain non-life run-off portfolios. The following is a reconciliation of the beginning and ending carrying amount of the equity attributable to the RNCI as of June 30, 2016 and December 31, 2015:

	Six Months Ended June 30, 2016	Year Ended December 31, 2015
Balance at beginning of period	$417,663	$374,619
Capital contributions	—	15,728
Dividends paid	—	(16,128)
Net earnings (loss) attributable to RNCI	18,541	(8,797)
Accumulated other comprehensive earnings (loss) attributable to RNCI	1,649	(745)
Transfer from noncontrolling interest	—	15,801
Accretion of RNCI to redemption value	1,803	37,185
Balance at end of period	$439,656	$417,663

Refer to Note 17 - "Related Party Transactions" and Note 18 - "Commitments and Contingencies" for additional information regarding RNCI.

Noncontrolling Interest

As of June 30, 2016 and December 31, 2015, we had $3.6 million and $3.9 million, respectively, of noncontrolling interest ("NCI") primarily related to an external interest in one of our non-life run-off subsidiaries.

13. SHARE CAPITAL

In June 2016, pursuant to an internal reorganization, we issued Series C Participating Non-Voting Perpetual Preferred Stock (“Series C Preferred Shares”) to one of our wholly-owned subsidiaries to be held in treasury, in exchange for all our Series A Non-Voting Convertible Ordinary Shares (“Series A Non-Voting Shares”), which had been issued to, and held in treasury by, one of our wholly-owned subsidiaries. The Series A Non-Voting Shares were subsequently canceled. The Series C Preferred Shares have no voting rights, other than with respect to certain limited matters whereby the consent of a majority of the holders of the outstanding Series C Preferred Shares, voting as a separate class, would be required.

Refer to Note 15 of the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015 for additional information on our Share Capital.

Table of Contents

ENSTAR GROUP LIMITED

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

14. EARNINGS PER SHARE

The following table sets forth the comparison of basic and diluted earnings per share for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic earnings per ordinary share:				
Net earnings attributable to Enstar Group Limited	$40,594	$ 14,545	$86,114	$ 59,392
Weighted-average ordinary shares outstanding — basic	19,295,280	19,252,359	19,289,119	19,244,951
Net earnings per ordinary share attributable to Enstar Group Limited — basic	$2.10	$ 0.76	$4.46	$ 3.09
Diluted earnings per ordinary share:				
Net earnings attributable to Enstar Group Limited	$40,594	$ 14,545	$86,114	$ 59,392
Weighted-average ordinary shares outstanding — basic	19,295,280	19,252,359	19,289,119	19,244,951
Effect of dilutive securities:				
Unvested shares	25,762	39,524	25,448	38,017
Restricted share units	17,092	13,620	16,014	12,031
Warrants	92,330	78,250	89,960	69,776
Weighted-average ordinary shares outstanding — diluted	19,430,464	19,383,753	19,420,541	19,364,775
Net earnings per ordinary share attributable to Enstar Group Limited — diluted	$2.09	$ 0.75	$4.43	$ 3.07

15. EMPLOYEE BENEFITS

We provide various employee benefits including share-based compensation, an employee share purchase plan, an annual incentive compensation program, and pension plans. These are described in Note 17 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015. On June 14, 2016, our shareholders approved the 2016 Equity Incentive Plan, which governs the terms of awards granted subsequent to its adoption. The plan replaced the expiring 2006 Equity Incentive Plan. Any outstanding awards granted under the 2006 plan remain in effect pursuant to their terms.

Share-based compensation expense for the three and six months ended June 30, 2016 was $3.7 million and$11.9 million, respectively, as compared to $7.7 million and $9.1 million for the comparative periods in 2015.

Employee share purchase plan expense for the three and six months ended June 30, 2016 and 2015, was less than $0.1 million and $0.2 million, respectively.

Annual incentive compensation program expense for the three and six months ended June 30, 2016, was $4.2 million and $5.0 million, respectively, as compared to $(0.9) million and $7.0 million for the comparative periods in 2015.

Pension expense for the three and six months ended June 30, 2016 was $2.8 million and $5.9 million, respectively, as compared to $2.8 million and $5.2 million for the comparative periods in 2015.

16. TAXATION

Interim Tax Calculation Method

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

Interim Tax Expense (Benefit)

The effective tax rates on income for the three and six months ended June 30, 2016 were 14.5% and 13.3%, respectively, as compared to 24.2% and 18.8%, respectively, for the comparative periods in 2015. The effective tax rate on income differs from the statutory rate of 0% due to tax on foreign operations (primarily the United States and United Kingdom) and an increase in the assessment of valuation allowance on deferred tax assets. We have foreign operating subsidiaries and branch operations principally located in the United States, United Kingdom, Continental Europe and Australia that are subject to federal, foreign, state and local taxes in those jurisdictions. Deferred income tax liabilities have not been accrued with respect to the undistributed earnings of our foreign subsidiaries. If the earnings were to be distributed, as dividends or other distributions, withholding taxes may be imposed by the jurisdiction of the paying subsidiary. For our U.S. subsidiaries, we have not currently accrued any withholding taxes with respect to un-remitted earnings as management has no current intention of remitting these earnings. For our United Kingdom subsidiaries, there are no withholding taxes imposed. For our other foreign subsidiaries, it would not be practicable to compute such amounts due to a variety of factors, including the amount, timing, and manner of any repatriation. Because we operate in many jurisdictions, our net earnings are subject to risk due to changing tax laws and tax rates around the world. The current, rapidly changing economic environment may increase the likelihood of substantial changes to tax laws in the jurisdictions in which we operate.

Assessment of Valuation Allowance on Deferred Tax Assets

We have estimated the future taxable income of our foreign subsidiaries and have provided a valuation allowance in respect of loss carryforwards where we do not expect to realize a benefit. We have considered all available evidence using a “more likely than not” standard in determining the amount of the valuation allowance. During the three and six months ended June 30, 2016, we recognized an increase of $1.3 million and $2.2 million, respectively, in our deferred tax asset valuation allowance.

Accounting for Uncertainty in Income Taxes

We had no unrecognized tax benefits relating to uncertain tax positions as at either June 30, 2016 or December 31, 2015.

Tax Examinations

Our operating subsidiaries may be subject to audit by various tax authorities and may have different statutes of limitations expiration dates. With limited exceptions, our major subsidiaries that operate in the United States, United Kingdom and Australia are no longer subject to tax examinations for years before 2012, 2012 and 2009, respectively.

17. RELATED PARTY TRANSACTIONS

Stone Point Capital LLC

Through several private transactions occurring from May 2012 to July 2012, Trident acquired 1,350,000 of our Voting Ordinary Shares (which now constitutes approximately 8.3% of our outstanding Voting Ordinary Shares). On November 6, 2013, we appointed James D. Carey to our Board of Directors. Mr. Carey is the sole member of an entity that is one of four general partners of the entities serving as general partners for Trident, is a member of the investment committees of such general partners, and is a member and senior principal of Stone Point Capital LLC ("Stone Point"), the manager of the Trident funds.

In addition, we have entered into certain agreements with Trident with respect to Trident's co-investments in the Atrium, Arden, and StarStone acquisitions. These include investors' agreements and shareholders' agreements, which provide for, among other things: (i) our right to redeem Trident's equity interest in the Atrium/Arden and StarStone transactions in cash at fair market value within the 90 days following the fifth anniversary of the Arden and StarStone closings, respectively, and at any time following the seventh anniversary of the Arden and StarStone closings, respectively; and (ii) Trident's right to have its equity co-investment interests in the Atrium/Arden and StarStone transactions redeemed by us at fair market value (which we may satisfy in either cash or our ordinary shares) following the seventh anniversaries of the Arden closing and StarStone closing, respectively. As of June 30, 2016, we have included $439.7 million (December 31, 2015: $417.7 million) as RNCI on our balance sheet relating to these Trident co-investment transactions. Pursuant to the terms of the shareholders' agreements, Mr. Carey serves as a Trident representative on the boards of the holding companies established in connection with the Atrium/Arden and StarStone co-investment transactions. Trident also has a second representative on these boards who is a Stone Point employee.

As at June 30, 2016, we had investments in funds (carried within other investments) and a registered investment company affiliated with entities owned by Trident or otherwise affiliated with Stone Point. The fair value of the investments in the funds was $190.1 million and $237.9 million as of June 30, 2016 and December 31, 2015, respectively. The decrease was primarily due to a sale of one of the fund investments during the three months ended June 30, 2016. The fair value of our investment in the registered investment company was $21.2 million and $21.0 million as at June 30, 2016 and December 31, 2015, respectively. For the six months ended June 30, 2016 and 2015, we recognized net realized and unrealized gains of $5.8 million and $5.5 million, respectively, in respect of the fund investments and net unrealized losses of $0.5 million and net unrealized gains of $0.2 million, respectively, in respect of the registered investment company investment. For the six months ended June 30, 2016 and 2015, we recognized interest income of $1.3 million in respect of the registered investment company.

We also have separate accounts, with a balance of $237.9 million and $157.8 million as at June 30, 2016 and December 31, 2015, respectively, managed by Eagle Point Credit Management and PRIMA Capital Advisors, which are affiliates of entities owned by Trident, with respect to which we incurred approximately $0.2 million and $0.1 million in management fees for the six months ended June 30, 2016 and 2015, respectively.

In addition, we are invested in funds (carried within other investments) managed by Sound Point Capital, an entity in which Mr. Carey has an indirect minority ownership interest and serves as a director. The fair value of our investments in Sound Point Capital funds was $24.1 million and $34.5 million as of June 30, 2016 and December 31, 2015, respectively; the decrease was primarily due to a partial sale of a fund investment during the six months ended June 30, 2016. For the six months ended June 30, 2016 and 2015, we have recognized net unrealized gains of $0.7 million and $1.6 million, respectively, in respect of investments managed by Sound Point Capital.

Sound Point Capital has acted as collateral manager for certain of our direct investments in CLO equity securities. The fair value of these investments was $18.8 million and $18.2 million as at June 30, 2016 and December 31, 2015, respectively. For the six months ended June 30, 2016 and 2015, we recognized net unrealized gains of $0.7 million and net unrealized losses of $0.7 million, respectively. For the six months ended June 30, 2016 and 2015, we recognized interest income of $3.6 million and $0.9 million in respect of these investments

During 2015 we opened a separate account managed by Sound Point Capital, with a balance of $56.8 million and $53.5 million as at June 30, 2016 and December 31, 2015, respectively, with respect to which we incurred approximately $0.1 million in management fees for the six months ended June 30, 2016 and 2015, respectively.
Fees charged pursuant to investments affiliated with entities owned by Trident or Sound Point Capital were negotiated on an arm's-length basis.

Goldman Sachs & Co.

Affiliates of Goldman Sachs own approximately 4.1% of our Voting Ordinary Shares and 100% of our Series C Non-Voting Ordinary Shares. Sumit Rajpal, a managing director of Goldman Sachs, was appointed to our Board of Directors in connection with Goldman Sachs' investment in Enstar. As of both June 30, 2016 and December 31, 2015, we had investments in funds (carried within other investments) affiliated with entities owned by Goldman Sachs, which had a fair value of $13.9 million and $39.6 million, respectively. The decrease was primarily due to a sale of one of the fund investments during the three months ended June 30, 2016. As of June 30, 2016 and December 31, 2015, we had an indirect investment in non-voting interests of two companies affiliated with Hastings Insurance Group Limited, which had a fair value of $42.6 million and $44.6 million, respectively. Goldman Sachs affiliates have an approximately 38% interest in the Hastings companies, and Mr. Rajpal serves as a director of the entities in which we have invested. For the six months ended June 30, 2016 and 2015, we recognized net unrealized gains of $2.8 million and net unrealized losses of $2.4 million, respectively, in respect of the Goldman Sachs-affiliated investments. For the six months ended June 30, 2016 and 2015, we recognized interest income of $0.7 million and $nil in respect of the Goldman Sachs-affiliated investments.

During 2015, a Goldman Sachs affiliate began providing investment management services to one of our subsidiaries. Our interests are held in accounts managed by affiliates of Goldman Sachs, with a balance of $786.6 million and $758.9 million as at June 30, 2016 and December 31, 2015, respectively, with respect to which we incurred approximately $0.4 million and $0.3 million in management fees for the six months ended June 30, 2016 and 2015, respectively.

Fees charged pursuant to investments with affiliates of Goldman Sachs were negotiated on an arm's-length basis.

CPPIB

Canada Pension Plan Investment Board ("CPPIB"), together with management of Wilton Re, own 100% of the common stock of Wilton Re. Subsequent to the closing of our transaction with Wilton Re, on June 3, 2015, CPPIB purchased voting and non-voting shares in Enstar from FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII-A Parallel Vehicle L.P. and FR Torus Co-Investment, L.P. (collectively, "First Reserve", and the transaction, the "CPPIB-First Reserve Transaction"). These shares constitute a 9.3% voting interest and a 9.8% aggregate economic interest in Enstar. On September 29, 2015, CPPIB exercised its acquired right to appoint a representative to our Board of Directors. In addition, 4.6% of our voting shares are held indirectly by CPPIB through CPPIB Epsilon Ontario Limited Partnership ("CPPIB LP"). CPPIB is the sole limited partner of CPPIB LP, CPPIB Epsilon Ontario Trust ("CPPIB Trust") is the general partner, and CPPIB's director representative is the trustee of CPPIB Trust.

We also have a pre-existing reinsurance recoverable based on normal commercial terms from a company later acquired by Wilton Re, which was carried on our balance sheet at $11.2 million as of June 30, 2016.

18. COMMITMENTS AND CONTINGENCIES

Concentrations of Credit Risk

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

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

Credit risk exists in relation to reinsurance balances recoverable. We remain liable to the extent that retrocessionaires do not meet their contractual obligations and, therefore, we evaluate and monitor concentration of credit risk among our reinsurers. These amounts are discussed in Note 6 - "Reinsurance Balances Recoverable."

We are also subject to credit risk in relation to funds held by reinsured companies. Under funds held arrangements, the reinsured company has retained funds that would otherwise have been remitted to our reinsurance subsidiaries. The funds balance is credited with investment income and losses payable are deducted. We are subject to credit risk if the reinsured company is unable to honor the value of the funds held balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. We routinely monitor the creditworthiness of reinsured companies with whom we have funds held arrangements. We have a significant concentration of $1.1 billion to one reinsured company which has financial strength credit ratings of A+ from A.M. Best and AA from Standard & Poor's.

We limit the amount of credit exposure to any one counterparty, and none of our counterparty credit exposures, excluding U.S. Government instruments and the funds held counterparty noted above, exceeded 10% of shareholders' equity as of June 30, 2016.

Legal Proceedings

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

Unfunded Investment Commitments

As at June 30, 2016, we had original commitments to investment funds of $380.0 million, of which $241.6 million has been funded, and $138.4 million remains outstanding as unfunded commitments.

Guarantees

As at June 30, 2016 and December 31, 2015, parental guarantees supporting subsidiaries' insurance obligations were $501.7 million and $334.2 million, respectively.

Redeemable Noncontrolling Interest

We have the right to purchase the RNCI interests from the RNCI holders at certain times in the future (each such right, a "call right"), and the RNCI holders have the right to sell their RNCI interests to us at certain times in the future (each such right, a "put right"). The RNCI rights held by Trident are described in Note 17 - "Related Party Transactions." Dowling has a right to participate if Trident exercises its put right.

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

19. SEGMENT INFORMATION
We monitor and report our results of operations in four segments: Non-life Run-off, Atrium, StarStone and Life and Annuities. These segments are described in Note 1 and Note 22 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015.
The following tables set forth selected and condensed consolidated statement of earnings results by segment for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016					
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Eliminations	Consolidated
INCOME						
Net premiums earned	$4,476	$31,758	$171,035	$19,659	$ —	$226,928
Fees and commission income	865	6,378	—	—	—	7,243
Net investment income	37,581	635	5,753	11,113	(859)	54,223
Net realized and unrealized gains (losses)	26,161	68	8,021	3,737	—	37,987
Other income	2,036	65	1,584	363	—	4,048
	71,119	38,904	186,393	34,872	(859)	330,429
EXPENSES						
Net incurred losses and LAE	(24,690)	17,133	104,019	—	—	96,462
Life and annuity policy benefits	—	—	—	19,778	—	19,778
Acquisition costs	(56)	11,240	32,518	2,804	(17)	46,489
General and administrative expenses	61,449	6,629	31,311	6,467	22	105,878
Interest expense	6,016	—	—	272	(864)	5,424
Net foreign exchange losses (gains)	(3,096)	256	1,027	(43)	—	(1,856)
	39,623	35,258	168,875	29,278	(859)	272,175
EARNINGS BEFORE INCOME TAXES	31,496	3,646	17,518	5,594	—	58,254
INCOME TAXES	(3,486)	(580)	(3,970)	(437)	—	(8,473)
NET EARNINGS	28,010	3,066	13,548	5,157	—	49,781
Less: Net losses (earnings) attributable to noncontrolling interest	(2,370)	(1,258)	(5,559)	—	—	(9,187)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$25,640	$1,808	$7,989	$5,157	$ —	$40,594

ENSTAR GROUP LIMITED

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

Six Months Ended June 30, 2016		
Non-life run-off	Atrium	StarStone