Enstar Group LTD
Form 10-Q
August 11, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From to

001-33289

Commission File Number

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.)**

P.O. Box HM 2267

Windsor Place, 3rd Floor

22 Queen Street

Hamilton HM JX

Bermuda

(Address of principal executive office, including zip code)

(441) 292-3645

(Registrant s telephone number, including area code)

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 filer	þ		Accelerated filer	¨
Non-accelerated filer	¨	(Do not check if a smaller reporting company)	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 8, 2014, the registrant had outstanding 15,758,734 voting ordinary shares and 3,439,652 non-voting convertible ordinary shares, each par value $1.00 per share.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

As of June 30, 2014 and December 31, 2013

	June 30, 2014	December 31, 2013
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, trading, at fair value	$ 234,211	$ 281,002
Short-term investments, available-for-sale, at fair value (amortized cost: 2014 $4,365; 2013 $32,477)	4,370	32,504
Fixed maturities, trading, at fair value	4,152,318	3,381,719
Fixed maturities, held-to-maturity, at amortized cost	853,235	859,387
Fixed maturities, available-for-sale, at fair value (amortized cost: 2014 $231,544; 2013 $210,825)	234,853	213,860
Equities, trading, at fair value	147,142	182,033
Other investments, at fair value	716,303	569,293
Total investments	6,342,432	5,519,798
Cash and cash equivalents	1,028,155	643,841
Restricted cash and cash equivalents	514,458	397,657
Accrued interest receivable	42,084	38,864
Accounts receivable	115,688	75,351
Premiums receivable	415,942	111,748
Income taxes recoverable	9,480	5,481
Deferred tax assets	34,178	34,295
Prepaid reinsurance premiums	155,892	
Reinsurance balances recoverable	1,527,221	1,363,819
Funds held by reinsured companies	146,828	237,789
Deferred acquisition costs	37,610	
Goodwill and intangible assets	204,952	150,071
Other assets	43,176	41,441
TOTAL ASSETS	$ 10,618,096	$ 8,620,155
LIABILITIES		
Losses and loss adjustment expenses	$ 5,124,991	$ 4,219,905
Policy benefits for life and annuity contracts	1,241,856	1,273,100

Unearned premiums	475,995	70,698
Insurance and reinsurance balances payable	323,887	281,028
Accounts payable and accrued liabilities	103,837	97,103
Income taxes payable	28,247	23,721
Deferred tax liabilities	47,178	53,328
Loans payable	386,212	452,446
Other liabilities	74,326	70,444
TOTAL LIABILITIES	7,806,529	6,541,773
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NONCONTROLLING INTEREST	353,713	100,859
SHAREHOLDERS EQUITY		
Share capital		
Authorized, issued and fully paid, par value $1 each (authorized 2014: 156,000,000; 2013: 156,000,000)		
Ordinary shares (issued and outstanding 2014: 15,746,591; 2013: 13,802,706)	15,747	13,803
Non-voting convertible ordinary shares:		
Series A (issued 2014: 2,972,892; 2013: 2,972,892)	2,973	2,973
Series C (issued and outstanding 2014: 2,725,637; 2013: 2,725,637)	2,726	2,726
Series E (issued and outstanding 2014: 714,015; 2013: Nil)	714	
Treasury shares at cost (Series A non-voting convertible ordinary shares 2014: 2,972,892; 2013: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	1,317,502	962,145
Accumulated other comprehensive income	18,870	13,978
Retained earnings	1,262,837	1,181,457
Total Enstar Group Limited Shareholders Equity	2,199,810	1,755,523
Noncontrolling interest	258,044	222,000
TOTAL SHAREHOLDERS EQUITY	2,457,854	1,977,523
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 10,618,096	$ 8,620,155

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three and Six Month Periods Ended June 30, 2014 and 2013

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(expressed in thousands of U.S. dollars, except share and per share data)			
INCOME				
Net premiums earned	$ 216,916	$ 75,596	$ 278,574	$ 107,257
Fees and commission income	7,509	2,960	14,507	5,407
Net investment income	33,649	27,252	57,997	45,215
Net realized and unrealized gains (losses)	38,411	(27,919)	72,984	2,201
	296,485	77,889	424,062	160,080
EXPENSES				
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities	59,749	(27,422)	47,699	(18,261)
Acquisition costs	50,379	9,632	63,540	12,000
Life and annuity policy benefits	27,732	25,562	54,541	26,322
Salaries and benefits	55,683	25,687	87,073	49,297
General and administrative expenses	37,177	20,002	59,427	37,948
Interest expense	3,529	3,091	7,263	5,526
Net foreign exchange (gains) losses	(525)	(8,403)	1,070	(3,321)
	233,724	48,149	320,613	109,511
EARNINGS BEFORE INCOME TAXES	62,761	29,740	103,449	50,569
INCOME TAXES	(8,452)	(4,542)	(15,728)	(12,386)
NET EARNINGS	54,309	25,198	87,721	38,183
Less: Net earnings attributable to noncontrolling interest	(2,516)	(6,001)	(6,341)	(7,027)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 51,793	$ 19,197	$ 81,380	$ 31,156
EARNINGS PER SHARE BASIC				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	$ 2.78	$ 1.16	$ 4.62	$ 1.89
EARNINGS PER SHARE DILUTED				

Net earnings per ordinary share attributable to Enstar Group Limited shareholders	$	2.68	$	1.15	$	4.52	$	1.87
Weighted average ordinary shares outstanding basic		18,636,085		16,525,026		17,605,808		16,519,640
Weighted average ordinary shares outstanding diluted		19,327,516		16,693,943		18,004,873		16,685,444

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Month Periods Ended June 30, 2014 and 2013

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(expressed in thousands of U.S. dollars)			
NET EARNINGS	$ 54,309	$ 25,198	$ 87,721	$ 38,183
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) on investments arising during the period	906	140	459	(1,551)
Reclassification adjustment for net realized (gains) losses included in net earnings	(253)	(231)	(134)	(279)
Unrealized gains (losses) arising during the period, net of reclassification adjustment	653	(91)	325	(1,830)
Currency translation adjustment	4,714	(20,278)	6,772	(21,501)
Total other comprehensive income (loss)	5,367	(20,369)	7,097	(23,331)
Comprehensive income	59,676	4,829	94,818	14,852
Less comprehensive income attributable to noncontrolling interest	(3,552)	(781)	(8,546)	(1,606)
COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 56,124	$ 4,048	$ 86,272	$ 13,246

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For the Six Month Periods Ended June 30, 2014 and 2013

	Six Months Ended June 30,			
	2014		2013	
	(expressed in thousands of U.S. dollars)			
Share Capital Ordinary Shares				
Balance, beginning of period	$	13,803	$	13,752
Issue of shares		1,901		2
Share awards granted/vested		43		46
Balance, end of period	$	15,747	$	13,800
Share Capital Series A Non-Voting Convertible Ordinary Shares				
Balance, beginning and end of period	$	2,973	$	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	$		$	
Series B Convertible Participating Non-Voting Perpetual Preferred Stock Converted		714		
Balance, end of period	$	714	$	
Share Capital Series B Convertible Participating Non-Voting Perpetual Preferred Stock				
Balance, beginning of period	$		$	
Issue of stock		714		
Converted to Series E Non-Voting Convertible Ordinary Shares		(714)		
Balance, end of period	$		$	
Treasury Shares				
Balance, beginning and end of period	$	(421,559)	$	(421,559)
Additional Paid-in Capital				
Balance, beginning of period	$	962,145	$	958,571
Issue of shares and warrants		353,832		319
Amortization of equity incentive plan		1,525		1,509

Balance, end of period	$ 1,317,502	$ 960,399
Accumulated Other Comprehensive Income Attributable to Enstar Group Limited		
Balance, beginning of period	$ 13,978	$ 24,439
Currency translation adjustment		
Balance, beginning of period	14,264	27,822
Change in currency translation adjustment	4,791	(16,415)
Balance, end of period	19,055	11,407
Defined benefit pension liability		
Balance, beginning of period	(2,249)	(7,180)
Change in defined benefit pension liability		
Balance, end of period	(2,249)	(7,180)
Unrealized gain on investments		
Balance, beginning of period	1,963	3,797
Change in unrealized gains on investments, net of tax	101	(1,495)
Balance, end of period	2,064	2,302
Balance, end of period	$ 18,870	$ 6,529
Retained Earnings		
Balance, beginning of period	$ 1,181,457	$ 972,853
Net earnings attributable to Enstar Group Limited	81,380	31,156
Balance, end of period	$ 1,262,837	$ 1,004,009
Noncontrolling Interest		
Balance, beginning of period	$ 222,000	$ 221,478
Return of capital	(9,980)	
Contribution of capital	35,699	
Transfer to redeemable noncontrolling interest	1,028	
Dividends paid		(1,740)
Net earnings attributable to noncontrolling interest*	7,460	7,027
Foreign currency translation adjustments*	1,993	(5,086)
Net movement in unrealized holding losses on fixed maturity investments*	(156)	(335)
Balance, end of period	$ 258,044	$ 221,344

*Excludes balances attributable to redeemable noncontrolling interest; refer to note 12

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Month Periods Ended June 30, 2014 and 2013

	Six Months Ended June 30, 2014	2013
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$ 87,721	$ 38,183
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Net realized and unrealized investment (gains) losses	(38,596)	27,881
Net realized and unrealized gains from other investments	(34,388)	(30,082)
Other items	158	2,175
Depreciation and amortization	2,019	505
Net amortization of premiums and accretion of discounts	28,144	23,261
Net movement of trading securities held on behalf of policyholders	(164)	2,096
Sales and maturities of trading securities	1,699,428	1,442,946
Purchases of trading securities	(1,188,935)	(1,527,521)
Changes in assets and liabilities:		
Reinsurance balances recoverable	240,415	60,437
Funds held by reinsured companies	101,571	190,305
Other assets	(48,924)	75,914
Losses and loss adjustment expenses	(363,957)	(203,471)
Policy benefits for life and annuity contracts	(31,244)	37,639
Insurance and reinsurance balances payable	(127,555)	(20,466)
Accounts payable and accrued liabilities	(10,906)	(49,419)
Other liabilities	9,410	(81,806)
Net cash flows provided by (used in) operating activities	324,197	(11,423)
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	$ 37,540	$ (283,960)
Sales and maturities of available-for-sale securities	78,967	160,143
Purchase of available-for-sale securities	(71,025)	
Maturities of held-to-maturity securities	311	137
Movement in restricted cash and cash equivalents	(94,022)	(107,097)
Funding of other investments	(120,768)	(24,410)
Redemption of other investments	10,692	
Other investing activities	(9)	298
Net cash flows used in investing activities	(158,314)	(254,889)

FINANCING ACTIVITIES:		
Distribution of capital to noncontrolling interest	(9,980)	
Contribution by redeemable noncontrolling interest	254,635	
Contribution by noncontrolling interest	35,699	
Dividends paid to noncontrolling interest		(1,740)
Receipt of loans	70,000	227,000
Repayment of loans	(133,250)	
Net cash flows provided by financing activities	217,104	225,260
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS	1,327	3,059
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	384,314	(37,993)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	643,841	654,890
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,028,155	$ 616,897
Supplemental Cash Flow Information		
Net income taxes paid	$ 17,018	$ 16,424
Interest paid	$ 10,236	$ 3,817

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and December 31, 2013

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

(unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation and Consolidation

The Company s condensed consolidated financial statements have not been audited. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. 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 accruals) considered necessary for a fair presentation of the Company s financial position and results of operations as at the end of and for the periods presented. Results of operations for subsidiaries acquired are included from the dates of their acquisition by the Company. The results of operations for any interim period are not necessarily indicative of the results for a full year. Inter-company accounts and transactions have been eliminated. In these notes, the terms we, us, our, or the Company refer to Enstar Group Limited and its direct and indirect subsidiaries.

The preparation of these unaudited condensed consolidated 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 unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the unaudited condensed consolidated financial statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Company s principal estimates include, but are not limited to:

- reserves for losses and loss adjustment expenses;
- policy benefits for life and annuity contracts;
- gross and net premiums written and net premiums earned;
- reinsurance balances recoverable, including the provisions for uncollectible amounts;
- other-than-temporary impairments in the carrying value of available-for-sale investment securities;

- valuation of certain other investments that are measured using significant unobservable inputs;
- valuation of goodwill and intangible assets; and
- fair value estimates associated with accounting for acquisitions.

The following information should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2013. Certain reclassifications have been made to the prior period reported amounts of net increase (reduction) in ultimate losses and loss adjustment expense liabilities and acquisition costs for non-life run-off to conform to the current period presentation. These reclassifications had no impact on income or net earnings previously reported.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards Adopted in 2014

ASU 2013-11 Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11). The objective of ASU 2013-11 is to improve the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 seeks to reduce the diversity in practice by providing guidance on the presentation of unrecognized tax benefits to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. ASU 2013-11 is effective for annual and interim reporting periods beginning after December 15, 2013, with both early adoption and retrospective application permitted. The adoption of the guidance did not have a material impact on the Company s consolidated statements of operations and financial position.

2. ACQUISITIONS

Torus Insurance Holdings Limited

On April 1, 2014, Kenmare Holdings Ltd. (Kenmare), a wholly-owned subsidiary of the Company, together with Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P., which are managed by Stone Point Capital LLC (collectively, Trident), completed the previously announced acquisition of Torus Insurance Holdings Limited (Torus). Torus is an A- rated global specialty insurer with six wholly-owned insurance vehicles, including Lloyd s Syndicate 1301. At closing, Torus became directly owned by Bayshore Holdings Ltd. (Bayshore), which was 60% owned by Kenmare and 40% owned by Trident.

The purchase price for Torus was established in the amended and restated amalgamation agreement as $646.0 million, to be paid partly in cash and partly in the Company s stock. The number of Company shares to be issued was fixed at the signing of the amalgamation agreement on July 8, 2013 and was determined by reference to an agreed-upon value per share of $132.448, which was the average closing price of the Company s voting ordinary shares, par value $1.00 per share (the Voting Ordinary Shares), over the 20 trading days prior to such signing date. On the day before closing of the amalgamation, the Voting Ordinary Shares had a closing price of $136.31 per share. At closing, the Company contributed cash of $41.6 million towards the purchase price and $3.6 million towards related transaction expenses, as well as 1,898,326 Voting Ordinary Shares and 714,015 shares of Series B Convertible Participating Non-Voting Perpetual Preferred Stock of the Company (the Non-Voting Preferred Shares). Based on a price of $136.31 per share, the Company s contribution of cash and shares to the purchase price totaled $397.7 million in the aggregate. Trident contributed cash of $258.4 million towards the purchase price and $2.4 million towards related transaction expenses. Based on a price of $136.31 per share, the aggregate purchase price paid by the Company and Trident was $656.1 million.

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) received 1,501,211 Voting Ordinary Shares, 714,015 Non-Voting Preferred Shares and cash consideration in the transaction. Following the approval of the Company s shareholders of an amendment to its bye-laws on June 10, 2014, First

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (Continued)

Reserve s Non-Voting Preferred Shares converted on a share-for-share basis into 714,015 shares of newly created Series E Non-Voting Convertible Common Shares (the Series E Non-Voting Ordinary Shares). Corsair Specialty Investors, L.P. (Corsair) received 397,115 Voting Ordinary Shares and cash consideration in the transaction. The remaining Torus shareholders received all cash. As a result of the amalgamation, First Reserve now owns approximately 9.5% and 11.5%, respectively, of the Company s Voting Ordinary Shares and outstanding share capital.

Upon the closing of the Torus acquisition, Bayshore, Kenmare and Trident entered into a Shareholders Agreement (the Bayshore Shareholders Agreement), which was subsequently amended, as described in Dowling Co-investments in Bayshore and Northshore below.

Purchase price	$ 656,088
Net assets acquired at fair value	$ 643,088
Excess of purchase price over fair value of net assets acquired	$ 13,000

The purchase price was allocated to the acquired assets and liabilities of Torus based on estimated fair values at the acquisition date. The Company recognized goodwill of $13.0 million, all of which was recorded within the Torus segment and is attributable primarily to Torus assembled workforce (refer to note 19 for a description of the Company s segments) . The Company also recognized indefinite lived intangible assets of $23.9 million and other definite lived intangible assets of $20.0 million.

The Company has not completed the process of determining the fair value of its losses and loss adjustment expense reserves, goodwill and intangible assets acquired. These valuations will be completed within the measurement period, which cannot exceed 12 months from the acquisition date. As a result, the fair value recorded for these items is a provisional estimate and may be subject to adjustment. Once completed, any adjustments resulting from the valuations may impact the individual amounts recorded for assets acquired and liabilities assumed, as well as the residual goodwill.

Prior to acquisition, Torus ceased underwriting certain lines of business in order to focus on core property, casualty and specialty lines. The results of the discontinued lines of business which were placed into run-off are included within the Company s non-life run-off segment.

Torus is a global specialty insurer that offers a diverse range of property, casualty and specialty insurance through its operations in the U.K., Continental Europe, the U.S., and Bermuda.

Results related to Torus run-off business are included within the Company s non-life run-off segment.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (Continued)

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed at the acquisition date, allocated by segment.

	Torus	Non-life Run-off	Total
ASSETS			
Short-term investments, trading, at fair value	$ 73,425	$ 25,888	$ 99,313
Fixed maturities, trading, at fair value	736,765	329,235	1,066,000
Other investments	2,068		2,068
Total investments	812,258	355,123	1,167,381
Cash and cash equivalents	275,809	63,799	339,608
Restricted cash and cash equivalents	22,779		22,779
Premiums receivable	307,950		307,950
Reinsurance balances recoverable reserves	210,742	152,057	362,799
Reinsurance balances recoverable paids	21,122	20,100	41,222
Prepaid reinsurance premiums	144,221	25,221	169,442
Intangible assets	43,900		43,900
Other assets	37,621		37,621
TOTAL ASSETS	$ 1,876,402	$ 616,300	$ 2,492,702
LIABILITIES			
Losses and loss adjustment expenses	$ 726,115	$ 538,131	$ 1,264,246
Insurance and reinsurance balances payable	140,997	29,047	170,044
Unearned premium	343,840	49,122	392,962
Other liabilities	22,362		22,362
TOTAL LIABILITIES	1,233,314	616,300	1,849,614
NET ASSETS ACQUIRED AT FAIR VALUE	643,088		643,088
Goodwill	13,000		13,000
ACQUISITION DATE FAIR VALUE	$ 656,088	$	$ 656,088

The following table summarizes the provisional intangible assets recorded in connection with the acquisition:

	Amount	Economic Useful Life
Syndicate capacity	$ 4,000	Indefinite
U.S. insurance licences	19,900	Indefinite
Technology	15,000	4 years
Brand	5,000	6 years
Intangible assets as of the acquisition date	$ 43,900	

The fair value of the Lloyd s syndicate capacity was estimated using the multi-period excess-earnings method, a form of the income approach. Lloyd s syndicate capacity represents Torus s authorized premium income limit to write insurance business in the Lloyd s market. The capacity is renewed annually at no cost to the Company but may be freely purchased or sold, subject to Lloyd s approval. The ability to write insurance business within the syndicate capacity is indefinite, with the premium income limit being set annually by the Company, subject to Lloyd s approval.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (Continued)

U.S. insurance licenses represent the intangible asset related to Torus licenses and have been valued based on recent market transactions.

Technology represents the intangible asset related to Torus capitalized software and has been valued on a replacement cost basis.

Brand represents the intangible asset related to the Torus name and was valued using the income approach.

From April 1, 2014, the date of acquisition, to June 30, 2014, the Company earned premiums of $138.2 million, recorded net increase in ultimate losses and loss adjustment expense liabilities of $80.3 million on those earned premiums, and recorded $6.4 million in net loss in its consolidated statement of earnings related to the active underwriting portion of the Torus business.

From the date of acquisition to June 30, 2014, the Company earned premiums of $15.9 million, recorded net increase in ultimate losses and loss adjustment expense liabilities of $10.2 million on those earned premiums, and recorded $2.6 million in net earnings in its consolidated statement of earnings related to the portion of the Torus run-off business.

Supplemental Pro Forma Financial Information (Unaudited)

The operating results for Torus have been included in the unaudited condensed consolidated financial statements from the date of acquisition. The following pro forma condensed combined statement of earnings for the three months ended June 30, 2013 and the six months ended June 30, 2014 and 2013 combines the historical consolidated statement of earnings of the Company with those historical consolidated statement of earnings of Torus, giving effect to the business combinations and related transactions as if they had occurred on January 1, 2013 and 2014, as applicable. The unaudited pro forma financial information presented below is for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition of Torus had taken place at the beginning of each period presented, nor is it indicative of future results.

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Total income	$ 223,075	$ 571,255	$ 484,363
Total expenses	(218,408)	(477,814)	(462,391)
Total noncontrolling interest	2,421	(7,984)	(377)
Net earnings	$ 7,088	$ 85,457	$ 21,595

Changes in Ownership Interests relating to Holding Companies for our Active Underwriting Businesses

Atrium Employee Equity Awards

On April 17, 2014, Northshore Holdings Ltd. (Northshore), the parent company of Atrium Underwriting Group Limited (Atrium) and Arden Reinsurance Company Ltd. (Arden), implemented long-term incentive plans that awarded time-based restricted shares of Northshore to certain Atrium employees. These equity awards will have the effect of modestly reducing Kenmare s equity interest in Northshore (as well as Trident s equity interest) over the course of the vesting periods as Atrium

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (Continued)

employees acquire shares. Shares generally vest over two to three years, although certain awards began vesting in 2014.

Dowling Co-investments in Bayshore and Northshore

On May 8, 2014, Dowling Capital Partners I, L.P. (Dowling) purchased common shares of both Bayshore and Northshore from Kenmare and Trident (on a pro rata basis in accordance with their respective interests) for an aggregate amount of $15.4 million.

Prior to the sale of shares to Dowling, Kenmare and Trident owned 60% and 40% of Bayshore, respectively, and 57.1% and 38.1% of Northshore on a fully diluted basis, respectively (assuming full vesting of Atrium employees restricted shares totaling 4.8%). Following the sale of Bayshore shares to Dowling, Kenmare, Trident and Dowling own 59%, 39.3% and 1.7% of Bayshore, respectively. Following the sale of Northshore shares to Dowling, Kenmare, Trident, certain Atrium employees and Dowling own 56.1%, 37.4%, 4.8% and 1.7% of Northshore, respectively, on a fully diluted basis.[1]

In connection with the sale of Bayshore shares, the Bayshore Shareholders Agreement was amended and restated. The Amended and Restated Bayshore Shareholders Agreement, among other things, provides that Kenmare has the right to appoint three members to the Bayshore board of directors and Trident has the right to appoint two members. The Amended and Restated Bayshore Shareholders Agreement includes a five-year period (the Restricted Period) during which no shareholder can transfer its ownership interest in Bayshore to a third party unless approved by a super-majority of the shareholders. Following the Restricted Period: (i) each shareholder must offer Kenmare and Trident the right to buy its shares before the shares are offered to a third party; (ii) Kenmare can require each other shareholder to participate in a sale of Bayshore to a third party as long as Kenmare owns 55% of the aggregate number of outstanding shares of Bayshore held by Kenmare and Trident; (iii) each shareholder has the right to be included on a pro rata basis in any sales made by another shareholder; and (iv) each of Kenmare, Trident and Dowling has the right to buy its pro rata share of any new securities issued by Bayshore.

The Amended and Restated Bayshore Shareholders Agreement also provides that during the 90-day period following the fifth anniversary of the Torus closing, and at any time following the seventh anniversary of such closing, Kenmare would have the right to purchase the Bayshore shares owned by all other shareholders of Bayshore at their then fair market value, which would be payable in cash. Following the seventh anniversary of the Torus closing, Trident would have the right to require Kenmare to purchase all of Trident s shares in Bayshore for their then current fair market value and Dowling would have the right to participate in such transaction by requiring Kenmare to purchase all of its shares in Bayshore on the same terms. Kenmare would have the option to pay for such shares either in cash or by delivering the Company s Voting Ordinary Shares.

In connection with the sale of Northshore shares, the Northshore Shareholders Agreement was amended and restated. The Amended and Restated Northshore Shareholders Agreement provides for substantially the same rights and obligations as the Amended and Restated Bayshore Shareholders Agreement, except that the fifth and seventh anniversaries refer to the Arden closing.

[1] Refer to Note 12 for Northshore percentages based on employee shares vested as at June 30, 2014.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT NEW BUSINESS

2014

Reciprocal of America

On July 6, 2012, our wholly-owned subsidiary, Providence Washington Insurance Company, entered into a definitive loss portfolio transfer reinsurance agreement with Reciprocal of America (in Receivership) and its Deputy Receiver relating to a portfolio of workers compensation business. The estimated total liabilities to be assumed are approximately $164.5 million, with an equivalent amount of assets to be received as consideration. Completion of the transaction is conditioned upon, among other things, regulatory approvals and satisfaction of customary closing conditions. The transaction is expected to close by the end of 2014.

Shelbourne RITC Transactions

Effective January 1, 2014, Lloyd s Syndicate 2008 (S2008), which is managed by the Company s wholly-owned subsidiary and Lloyd s managing agent, Shelbourne Syndicate Services Limited, entered into a reinsurance to close contract of the 2011 and prior underwriting years of account of another Lloyd s syndicate, under which S2008 assumed total net insurance reserves of approximately £17.0 million (approximately $28.1 million) for cash consideration of an equal amount.

Effective December 31, 2012, S2008 entered into a 100% quota share reinsurance agreement with another Lloyd s syndicate in respect of its 2009 and prior years of account (the 2009 Liabilities), under which S2008 assumed total gross insurance reserves of approximately £193.0 million (approximately $313.3 million) for consideration of an equal amount. Effective January 1, 2014, the 2012 Lloyd s underwriting year of account of S2008 entered into a partial RITC transaction with respect to the 2009 Liabilities.

4. INVESTMENTS

The Company holds: (i) trading portfolios of fixed maturity investments, short-term investments and equities; (ii) a held-to-maturity portfolio of fixed maturity investments; and (iii) available-for-sale portfolios of fixed maturity and short-term investments. The Company s trading and available-for-sale portfolios are recorded at fair value. The Company s held-to-maturity portfolio is recorded at amortized cost.

In the normal course of the Company s investing activities, it actively manages allocations to non-controlling tranches of structured securities issued by variable interest entities (VIEs). These structured securities include residential mortgage-backed, commercial mortgage-backed and asset-backed securities and are included in the tables below.

In addition to these securities, the Company also invests in private equity funds, fixed income funds, fixed income hedge funds, equity and real estate debt funds and collateralized loan obligation (CLO) equity-tranched securities, which are all variable interests issued by VIEs. For these variable interests, the Company does not have the power to direct the activities that are most significant to the economic performance of the VIEs and, accordingly, it is not the primary beneficiary for any of these VIEs. Its maximum exposure to loss on these interests is limited to the amount of its investment. The Company has not provided financial or other support with respect to these structured securities other than its original investment.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Trading

The estimated fair values of the Company s investments in fixed maturity investments, short-term investments and equities classified as trading securities were as follows:

	June 30, 2014	December 31, 2013
U.S. government and agency	$ 694,685	$ 439,946
Non-U.S. government	473,784	476,224
Corporate	2,254,205	2,123,675
Municipal	32,593	41,034
Residential mortgage-backed	357,908	218,457
Commercial mortgage-backed	161,822	114,637
Asset-backed	411,532	248,748
Total fixed maturity and short-term investments	4,386,529	3,662,721
Equities U.S.	89,830	115,285
Equities International	57,312	66,748
	$ 4,533,671	$ 3,844,754

Included within residential and commercial mortgage-backed securities as at June 30, 2014 were securities issued by U.S. governmental agencies with a fair value of $313.2 million (as at December 31, 2013: $177.9 million).

The increase in the Company s investments classified as trading securities of $688.9 million was due primarily to additional fixed maturity investments acquired in the Torus acquisition.

The following tables set forth certain information regarding the credit ratings (provided by major rating agencies) of the Company s fixed maturity and short-term investments classified as trading:

As at June 30, 2014	Fair Value	% of Total Fair Value
AAA	$ 609,563	13.9%
AA	1,929,647	44.0%
A	1,310,870	29.9%
BBB or lower	514,384	11.7%

Not Rated	22,065	0.5%
	$ 4,386,529	100.00%

As at December 31, 2013	Fair Value	% of Total Fair Value
AAA	$ 502,057	13.7%
AA	1,430,107	39.1%
A	1,191,142	32.5%
BBB or lower	461,614	12.6%
Not Rated	77,801	2.1%
	$ 3,662,721	100.0%

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Held-to-maturity

The Company holds a portfolio of held-to-maturity securities to support the annuity business acquired through its March 31, 2013 acquisition of the closed U.S. life and annuities operations of HSBC Holdings plc (now referred to as Pavonia). The amortized cost and estimated fair values of the Company s fixed maturity investments classified as held-to-maturity were as follows:

As at June 30, 2014	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
U.S. government and agency	$ 19,736	$ 13	$ (578)	$ 19,171
Non-U.S. government	45,943	188	(658)	45,473
Corporate	787,556	5,085	(12,286)	780,355
	$ 853,235	$ 5,286	$ (13,522)	$ 844,999

As at December 31, 2013	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
U.S. government and agency	$ 19,992	$ 6	$ (1,866)	$ 18,132
Non-U.S. government	23,592	19	(1,284)	22,327
Corporate	815,803	105	(56,808)	759,100
	$ 859,387	$ 130	$ (59,958)	$ 799,559

As at June 30, 2014 and December 31, 2013, none of these securities were considered to be other than temporarily impaired.

The contractual maturities of the Company s fixed maturity investments classified as held-to-maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

As at June 30, 2014	Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$ 22,341	$ 22,389	2.6%
Due after one year through five years	84,700	84,960	10.1%
Due after five years through ten years	128,337	127,344	15.1%
Due after ten years	617,857	610,306	72.2%
	$ 853,235	$ 844,999	100.0%

As at December 31, 2013	Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$ 17,541	$ 17,579	2.2%
Due after one year through five years	87,698	86,611	10.8%
Due after five years through ten years	133,102	126,541	15.8%
Due after ten years	621,046	568,828	71.2%
	$ 859,387	$ 799,559	100.0%

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

The following tables set forth certain information regarding the credit ratings (provided by major rating agencies) of the Company s fixed maturity investments classified as held-to-maturity:

As at June 30, 2014	Amortized Cost	Fair Value	% of Total Fair Value
AAA	$ 54,327	$ 53,537	6.3%
AA	257,602	252,526	29.9%
A	494,512	492,613	58.3%
BBB or lower	46,340	45,864	5.4%
Not Rated	454	459	0.1%
	$ 853,235	$ 844,999	100.0%

As at December 31, 2013	Amortized Cost	Fair Value	% of Total Fair Value
AAA	$ 47,949	$ 44,552	5.6%
AA	259,163	239,188	29.9%
A	496,986	463,001	57.9%
BBB or lower	54,759	52,282	6.5%
Not Rated	530	536	0.1%
	$ 859,387	$ 799,559	100.0%

Available-for-sale

The amortized cost and estimated fair values of the Company s fixed maturity and short-term investments classified as available-for-sale were as follows:

As at June 30, 2014	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
U.S. government and agency	$ 22,762	$ 254	$ (1)	$ 23,015

Non-U.S. government	75,227	1,624	(62)	76,789
Corporate	88,186	1,382	(14)	89,554
Residential mortgage-backed	3,911	89	(23)	3,977
Asset-backed	45,823	76	(11)	45,888
	$ 235,909	$ 3,425	$ (111)	$ 239,223

As at December 31, 2013	**Amortized Cost**	**Gross Unrealized Holding Gains**	**Gross Unrealized Holding Losses Non-OTTI**	**Fair Value**
U.S. government and agency	$ 28,050	$ 303	$ (10)	$ 28,343
Non-U.S. government	84,443	1,871	(22)	86,292
Corporate	76,942	1,221	(259)	77,904
Residential mortgage-backed	17,523	102	(118)	17,507
Asset-backed	36,344	4	(30)	36,318
	$ 243,302	$ 3,501	$ (439)	$ 246,364

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Included within residential mortgage-backed securities as at June 30, 2014 were securities issued by U.S. governmental agencies with a fair value of $1.0 million (as at December 31, 2013: $12.5 million).

The following tables summarize the Company s fixed maturity and short-term investments classified as available-for-sale in an unrealized loss position as well as the aggregate fair value and gross unrealized loss by length of time the securities have continuously been in an unrealized loss position:

	12 Months or Greater		Less Than 12 Months		Total	
As at June 30, 2014	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government and agency	$	$	$ 1,594	$ (1)	$ 1,594	$ (1)
Non-U.S. government			13,551	(62)	13,551	(62)
Corporate			9,297	(14)	9,297	(14)
Residential mortgage-backed			1,428	(23)	1,428	(23)
Asset-backed			2,093	(11)	2,093	(11)
	$	$	$ 27,963	$ (111)	$ 27,963	$ (111)

	12 Months or Greater		Less Than 12 Months		Total	
As at December 31, 2013	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government and agency	$	$	$ 11,416	$ (10)	$ 11,416	$ (10)
Non-U.S. government			20,406	(22)	20,406	(22)
Corporate			51,478	(259)	51,478	(259)
Residential mortgage-backed			13,632	(118)	13,632	(118)
Asset-backed			24,898	(30)	24,898	(30)
	$	$	$ 121,830	$ (439)	$ 121,830	$ (439)

As at June 30, 2014 and December 31, 2013, the number of securities classified as available-for-sale in an unrealized loss position was 35 and 135, respectively, with a fair value of $28.0 million and $121.8 million, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was nil. As of June 30, 2014, none of these securities were considered to be other than temporarily impaired.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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

As at June 30, 2014	Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$ 62,359	$ 63,571	26.6%
Due after one year through five years	118,298	119,515	49.9%
Due after five years through ten years	2,806	2,832	1.2%
Due after ten years	2,712	3,440	1.4%
	186,175	189,358	79.1%
Residential mortgage-backed	3,911	3,977	1.7%
Asset-backed	45,823	45,888	19.2%
	$ 235,909	$ 239,223	100.0%

As at December 31, 2013	Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$ 45,295	$ 45,596	18.5%
Due after one year through five years	141,400	143,445	58.2%
Due after five years through ten years	69	70	0.1%
Due after ten years	2,671	3,428	1.4%
	189,435	192,539	78.2%
Residential mortgage-backed	17,523	17,507	7.1%
Asset-backed	36,344	36,318	14.7%
	$ 243,302	$ 246,364	100.0%

The following tables set forth certain information regarding the credit ratings (provided by major rating agencies) of the Company s fixed maturity and short-term investments classified as available-for-sale:

As at June 30, 2014	Amortized Cost	Fair Value	% of Total Fair Value
AAA	$ 127,105	$ 128,551	53.7%
AA	60,600	61,389	25.7%
A	39,107	40,121	16.8%
BBB or lower	9,023	9,088	3.8%
Not Rated	74	74	0.0%
	$ 235,909	$ 239,223	100.0%

As at December 31, 2013	Amortized Cost	Fair Value	% of Total Fair Value
AAA	$ 125,729	$ 127,433	51.7%
AA	74,692	75,181	30.5%
A	33,834	34,607	14.1%
BBB or lower	8,957	8,963	3.6%
Not Rated	90	180	0.1%
	$ 243,302	$ 246,364	100.0%

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Other-Than-Temporary Impairment Process

The Company assesses whether declines in the fair value of its fixed maturity investments classified as available-for-sale and held-to-maturity represent impairment losses that are other-than-temporary and whether a credit loss exists in accordance with its accounting policies. In assessing whether it is more likely than not that the Company will be required to sell a fixed maturity investment before its anticipated recovery, the Company considers various factors including its future cash flow requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short-term investments and fixed maturity investments available-for-sale in an unrealized gain position, and other relevant factors. For the six months ended June 30, 2014, the Company did not recognize any other-than-temporary impairment losses due to required sales. The Company determined that, as at June 30, 2014, no credit losses existed.

Other Investments

The estimated fair values of the Company s other investments were as follows:

	June 30, 2014	December 31, 2013
Private equity funds	$ 215,152	$ 161,229
Fixed income funds	223,445	194,375
Fixed income hedge funds	66,028	68,157
Equity funds	162,655	109,355
Real estate debt fund	33,231	32,113
CLO equities	10,800	
Other	4,992	4,064
	$ 716,303	$ 569,293

Private equity funds

This class comprises several private equity funds that invest primarily in the financial services industry. All of the Company s investments in private equity funds are subject to restrictions on redemptions and sales that are determined by the governing documents and limit the Company s ability to liquidate those investments. These restrictions have been in place since the dates the initial investments were made by the Company.

As of June 30, 2014 and December 31, 2013, the Company had $215.2 million and $161.2 million, respectively, of other investments recorded in private equity funds, which represented 2.7% and 2.5% of total investments, cash and cash equivalents and restricted cash and cash equivalents at June 30, 2014 and December 31, 2013, respectively. Due to a lag in the valuations reported by the managers, the Company records changes in the investment value with up to a three-month lag. Management regularly reviews and discusses fund performance with the Company s 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.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Fixed income funds

This class comprises 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 to monthly.

Fixed income hedge funds

This class comprises hedge funds that invest in a diversified portfolio of debt securities. The hedge funds have imposed lock-up periods of three years from the time of the Company s initial investment. Once eligible, redemptions will be permitted quarterly with 90 days notice. In April 2014, the Company received $5.4 million following a redemption of shares of one of the funds in this class.

Equity funds

This class comprises equity funds that invest in a diversified portfolio of international publicly-traded equity securities.

Real estate debt fund

This class comprises a real estate debt fund that 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 states that it will make commercially reasonable efforts to redeem the investment within the next monthly period.

CLO equities

This class comprises investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. CLO equities denote direct investments by the Company in these securities.

Other

This class primarily comprises a fund that provides loans to educational institutions throughout the U.S. and its territories. Through these investments, the Company participates in the performance of the underlying loan pools. This investment matures when the loans are paid down and cannot be redeemed before maturity. Also included within this class is a catastrophe bond acquired as part of the Company s acquisition of Torus.

Redemption restrictions on other investments

Certain funds included in other investments are subject to a lock-up period. A lock-up period refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem the investment. Funds that do provide for periodic redemptions may, depending on the funds

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

governing documents, have the ability to deny or delay a redemption request, which is called a gate. The fund may restrict redemptions because the aggregate amount of redemption requests as of a particular date exceeds a specified level. The gate is a method for executing an orderly redemption process that allows for redemption requests to be executed in a timely manner to reduce the possibility of adversely affecting the remaining investors in the fund. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion to be settled in cash sometime after the redemption date.

Certain funds included in other investments may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism used is a side-pocket, whereby the illiquid security is assigned to a separate memorandum capital account or designated account. Typically, the investor loses its redemption rights in the designated account. Only when the illiquid security is sold, or is otherwise deemed liquid by the fund, may investors redeem their interest in the side-pocket.

At June 30, 2014, the Company had $2.6 million of investments subject to side-pockets ($3.2 million as of December 31, 2013). As of June 30, 2014, management has not made any adjustments to the fair value estimate reported by the fund managers for the side-pocketed investments.

The following tables present the fair value, unfunded commitments and redemption frequency for the funds included within other investments. These investments are all valued at net asset value as at June 30, 2014 and December 31, 2013:

June 30, 2014	Total Fair Value	Gated/Side Pocket Investments	Investments without Gates or Side Pockets	Unfunded Commitments	Redemption Frequency
Private equity funds	$ 215,152	$	$ 215,152	$ 114,983	Not eligible
Fixed income funds	223,445		223,445		Daily to monthly
Fixed income hedge funds	66,028	2,550	63,478		Quarterly after lock-up periods expire
Equity funds	162,655		162,655		Bi-monthly
Real estate debt fund	33,231		33,231		Monthly
Other	2,946		2,946	655	Not eligible
	$ 703,457	$ 2,550	$ 700,907	$ 115,638	

December 31, 2013	Redemption

	Total Fair Value	Gated/Side Pocket Investments	Investments without Gates or Side Pockets	Unfunded Commitments	Frequency
Private equity funds	$ 161,229	$	$ 161,229	$ 113,585	Not eligible
Fixed income funds	194,375		194,375		Daily to monthly
Fixed income hedge funds	68,157	3,150	65,007		Quarterly after lock-up periods expire
Equity funds	109,355		109,355		Bi-monthly
Real estate debt fund	32,113		32,113		Monthly
Other	4,064		4,064	655	Not eligible
	$ 569,293	$ 3,150	$ 566,143	$ 114,240	

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Fair Value of Financial Instruments

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. The Company uses 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 the Company has 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 inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company s own judgment about assumptions that market participants might use.

The following is a summary of valuation techniques or models the Company uses to measure fair value by asset and liability classes.

Fixed Maturity Investments

The Company s fixed maturity investments portfolio is managed by the Company s Chief Investment Officer and outside investment advisors with oversight from the Company s Investment Committee. Fair values for all securities in the fixed maturity investments portfolio are independently provided by the investment custodians, investment accounting service providers and investment managers, each of which utilize internationally recognized independent pricing services. Interactive Data Corporation is, however, the main pricing service utilized to estimate the fair value measurements for the Company s fixed maturity investments. The Company records the unadjusted price provided by the investment custodians, investment accounting service providers or the investment managers and validates 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 the Company s knowledge of the current investment market. The Company s 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 custodians, investment accounting service providers and investment managers 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

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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 the Company s 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. 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 within Level 2.

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 within 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 within Level 2. Where pricing is unavailable from pricing services, the Company obtains 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. In this event, securities are classified within Level 3. As at June 30, 2014, the Company had one corporate security classified 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 within Level 2.

Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. 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 within Level 2.

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 within Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

and current transactions are not orderly. In this event, securities are classified within Level 3. As at June 30, 2014, the Company had no residential or commercial mortgage-backed securities classified as Level 3.

Equities

The Company s equities are predominantly traded on the major exchanges and are primarily managed by two external advisors. The Company uses Interactive Data Corporation, an internationally recognized pricing service, to estimate the fair value for all of its equities. The Company s equities are widely diversified and there is no significant concentration in any specific industry.

The Company has categorized all of its investments in equities other than preferred stock as Level 1 investments because the fair values of these investments are based on quoted prices in active markets for identical assets or liabilities. The fair value estimates of the Company s preferred stock is based on observable market data and, as a result, has been categorized as Level 2, with the exception of one investment in preferred stock that has been categorized as Level 3.

Other investments

The Company has ongoing due diligence processes with respect to funds in which it invests and their managers. These processes are designed to assist the Company 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, the Company obtains the audited financial statements for funds annually, and regularly reviews and discusses the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate net asset value is a permitted practical expedient. While reported net asset value is the primary input to the review, when the net asset value is deemed not to be indicative of fair value, the Company may incorporate adjustments to the reported net asset value (and not use the permitted practical expedient) on an investment by investment basis. These adjustments may involve significant management judgment. As at June 30, 2014, there were no significant adjustments made to the reported net asset value.

For its investments in private equity funds, the Company measures fair value by obtaining the most recently provided capital statement from the external fund manager or third-party administrator. The funds calculate net asset value on a fair value basis. For all publicly-traded companies within these funds, the Company adjusts the reported net asset value based on the latest share price as of the Company s reporting date. The Company has classified its investments in private equity funds as Level 3.

The fixed income funds and equity funds in which the Company invests have been classified as Level 2 investments because their fair value is estimated using the published net asset value and because the fixed income funds and equity funds are highly liquid.

For its investments in fixed income hedge funds, the Company measures fair value by obtaining the most recently published net asset value as advised by the external fund manager or third-party administrator. The investments in the funds are classified as Level 3.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

The real estate debt fund in which the Company invests has been valued based on the most recent published net asset value. This investment has been classified as Level 3.

The Company measures the fair value of its direct investment in CLO equities based on valuations provided by the Company s external CLO equity manager or, if not available or if the investment does not involve an external CLO manager, by using an income approach based on certain observable and unobservable inputs. At June 30, 2014, the Company s investments in CLO equities were valued using valuations provided by the external CLO equity manager. The Company s CLO equities 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 uses observable and unobservable inputs. Of the significant unobservable market inputs used by the CLO equity manager, 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 the Company s 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 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 the Company s CLO equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

On a quarterly basis, the Company receives the valuation from the external CLO manager and then reviews the underlying cash flows and key assumptions used by the manager. The Company reviews and updates the significant unobservable inputs based on information obtained from secondary markets. These inputs are the responsibility of the Company and the Company assesses the reasonableness of the inputs (and if necessary, updates the inputs) through communicating with industry participants, monitoring of the transactions in which the Company participates (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 were not available or if the investment does not involve an external CLO manager, the Company would use an income approach based on certain observable and unobservable inputs to value these investments. 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.

The Company s catastrophe bond is recorded at fair value based on broker or underwriter bid indications, and has been classified as Level 2. The Company s remaining other investments have been valued based on the latest available capital statements, and have all been classified as Level 3.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Fair Value Measurements

In accordance with the provisions of the Fair Value Measurement and Disclosure topic of the FASB Accounting Standards Codification (ASC) 820, the Company has categorized its investments that are recorded at fair value among levels as follows:

	June 30, 2014			
	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	$	$ 717,700	$	$ 717,700
Non-U.S. government		550,573		550,573
Corporate		2,343,149	610	2,343,759
Municipal		32,593		32,593
Residential mortgage-backed		361,885		361,885
Commercial mortgage-backed		161,822		161,822
Asset-backed		457,420		457,420
Equities U.S.	79,667	5,288	4,875	89,830
Equities International	11,762	45,550		57,312
Other investments		388,139	328,164	716,303
Total investments	$ 91,429	$ 5,064,119	$ 333,649	$ 5,489,197

	December 31, 2013			
	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	$	$ 468,289	$	$ 468,289

Non-U.S. government		562,516		562,516
Corporate		2,200,970	609	2,201,579
Municipal		41,034		41,034
Residential mortgage-backed		235,964		235,964
Commercial mortgage-backed		114,637		114,637
Asset-backed		285,066		285,066
Equities U.S.	97,470	13,090	4,725	115,285
Equities International	35,677	31,071		66,748
Other investments		303,724	265,569	569,293
Total investments	$ 133,147	$ 4,256,361	$ 270,903	$ 4,660,411

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

The following tables present the Company s fair value hierarchy for those assets classified as held-to-maturity in the consolidated balance sheet but for which disclosure of the fair value is required as of June 30, 2014 and December 31, 2013:

	June 30, 2014			
	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	$	$ 19,171	$	$ 19,171
Non-U.S. government		45,473		45,473
Corporate		780,355		780,355
Total investments	$	$ 844,999	$	$ 844,999

	December 31, 2013			
	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	$	$ 18,132	$	$ 18,132
Non-U.S. government		22,327		22,327
Corporate		759,100		759,100
Total investments	$	$ 799,559	$	$ 799,559

During 2014 and 2013, the Company had 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, 2014:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of April 1, 2014	$ 607	$ 296,651	$ 4,750	$ 302,008
Purchases		28,461		28,461
Sales		(7,709)		(7,709)
Total realized and unrealized gains through earnings	3	10,761	125	10,889
Net transfers into and/or (out of) Level 3				
Level 3 investments as of June 30, 2014	$ 610	$ 328,164	$ 4,875	$ 333,649

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

The amount of net gains for the three months ended June 30, 2014 included in earnings attributable to the fair value of changes in assets still held at June 30, 2014 was $10.9 million. All of this amount was included in net realized and unrealized gains.

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, 2013.

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of April 1, 2013	$ 555	$ 214,687	$ 4,000	$ 219,242
Purchases		25,166		25,166
Sales		(469)		(469)
Total realized and unrealized gains through earnings	51	9,930	500	10,481
Net transfers into and/or (out of) Level 3				
Level 3 investments as of June 30, 2013	$ 606	$ 249,314	$ 4,500	$ 254,420

The amount of net gains for the three months ended June 30, 2013 included in earnings attributable to the fair value of changes in assets still held at June 30, 2013 was $10.5 million. All of this amount was included in net realized and unrealized gains.

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, 2014:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of January 1, 2014	$ 609	$ 265,569	$ 4,725	$ 270,903
Purchases		51,753		51,753
Sales		(10,692)		(10,692)

Total realized and unrealized gains through earnings	1	21,534	150	21,685
Net transfers into and/or (out of) Level 3				
Level 3 investments as of June 30, 2014	$ 610	$ 328,164	$ 4,875	$ 333,649

The amount of net gains for the six months ended June 30, 2014 included in earnings attributable to the fair value of changes in assets still held at June 30, 2014 was $21.7 million. All of this amount was included in net realized and unrealized gains.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the six months ended June 30, 2013.

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of January 1, 2013	$ 540	$ 202,730	$ 3,402	$ 206,672
Purchases		34,158		34,158
Sales		(9,754)		(9,754)
Total realized and unrealized gains through earnings	66	22,180	1,098	23,344
Net transfers into and/or (out of) Level 3				
Level 3 investments as of June 30, 2013	$ 606	$ 249,314	$ 4,500	$ 254,420

The amount of net gains for the six months June 30, 2013 included in earnings attributable to the fair value of changes in assets still held at June 30, 2013 was $23.3 million. All of this amount was included in net realized and unrealized gains.

Net Realized and Unrealized Gains

Components of net realized and unrealized gains (losses) are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Gross realized gains on available-for-sale securities	$ 253	$ 345	$ 279	$ 410
Gross realized losses on available-for-sale securities		(114)	(145)	(131)
Net realized gains on trading securities	12,010	3,581	17,927	9,590
	8,757	(42,882)	20,535	(37,750)

Net unrealized gains (losses) on trading securities				
Net realized and unrealized gains on other investments	17,391	11,151	34,388	30,082
Net realized and unrealized gains (losses)	$ 38,411	$ (27,919)	$ 72,984	$ 2,201
Proceeds from sales and maturities of available-for-sale securities	$ 26,179	$ 100,512	$ 78,967	$ 160,143

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Net Investment Income

Major categories of net investment income are summarized as follows:

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Interest from fixed maturity investments	$ 39,644	$ 34,752	$ 73,850	$ 55,377
Interest from cash and cash equivalents and short-term investments	1,800	4,228	3,425	7,309
Net amortization of bond premiums and discounts	(15,682)	(14,748)	(28,144)	(23,261)
Dividends from equities	1,626	1,305	3,030	2,396
Other investments	648	(106)	740	(45)
Interest on other receivables	656	955	882	1,573
Other income	7,164	593	7,186	1,990
Interest on deposits held with clients	292	1,673	1,022	2,868
Policy loan interest	304		615	
Investment expenses	(2,803)	(1,400)	(4,609)	(2,992)
	$ 33,649	$ 27,252	$ 57,997	$ 45,215

Restricted Assets

The Company is required to maintain investments and cash and cash equivalents on deposit with various regulatory authorities to support its insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. The Company also utilizes trust accounts to collateralize business with its 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 the Company s restricted assets, including restricted cash of $514.5 million and $397.7 million, as of June 30, 2014 and December 31, 2013 was as follows:

	June 30, 2014	December 31, 2013

Collateral in trust for third party agreements	$ 2,623,281	$ 2,002,374
Assets on deposit with regulatory authorities	660,690	608,940
Collateral for secured letter of credit facility	327,722	310,938
	$ 3,611,693	$ 2,922,252

The increase in restricted assets of $689.4 million since December 31, 2013 is primarily as a result of the acquisition of Torus.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. REINSURANCE BALANCES RECOVERABLE

The following table provides the total reinsurance balances recoverable by segment as at June 30, 2014 and December 31, 2013:

	June 30, 2014					December 31, 2013			
	Non-life Run-off	Atrium	Torus	Life and Annuities	Total	Non-life Run-off	Atrium	Life and Annuities	Total
Recoverable from reinsurers on:									
Outstanding losses	$ 659,014	$ 9,258	$ 162,721	$ 24,931	$ 855,924	$ 788,705	$ 10,777	$ 28,556	$ 828,038
Losses incurred but not reported	330,335	13,344	187,930	732	532,341	402,675	9,887	782	413,344
Fair value adjustments	(54,030)	4,391	(14,502)		(64,141)	(69,847)	4,391		(65,456)
Total reinsurance reserves recoverable	935,319	26,993	336,149	25,663	1,324,124	1,121,533	25,055	29,338	1,175,926
Paid losses recoverable	161,733	352	37,971	3,041	203,097	177,459	7,845	2,589	187,893
	$ 1,097,052	$ 27,345	$ 374,120	$ 28,704	$ 1,527,221	$ 1,298,992	$ 32,900	$ 31,927	$ 1,363,819

The Company s acquired insurance and reinsurance run-off subsidiaries, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed. The Company s insurance and reinsurance subsidiaries remain liable to the extent that retrocessionaires do not meet their obligations under these agreements, and therefore, the Company evaluates and monitors concentration of credit risk among its reinsurers. Provisions are made for amounts considered potentially uncollectible (refer to note 19 for a description of the Company s segments).

On an annual basis, both Torus and Atrium purchase a tailored outwards reinsurance program designed to manage their risk profiles. The majority of Atrium s total third party reinsurance cover is with Lloyd s Syndicates or other highly rated reinsurers. The majority of Torus total 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 loss adjustment expense recoveries and an assumed interest rate equivalent to a risk free rate for securities with similar duration to the reinsurance recoverables acquired plus a spread to reflect 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, 2014 and December 31, 2013, the Company had, excluding reinsurance recoverables related to its life and annuities segment, reinsurance balances recoverable of $1.50 billion and $1.33 billion, respectively. The increase of $165.6 million in reinsurance balances recoverable was primarily a result of the Torus acquisition, partially offset by commutations and cash collections made during the period ended June 30, 2014.

As at June 30, 2014, the reinsurance balances recoverable associated with the Company s life and annuities business consists of term life business ceded by Pavonia to reinsurers under various quota share arrangements. All of the reinsurers are rated A- and above by a major rating agency.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. REINSURANCE BALANCES RECOVERABLE (Continued)

For both June 30, 2014 and December 31, 2013, the provision for uncollectible reinsurance recoverable relating to reinsurance balances recoverable was $338.6 million. To estimate the provision for uncollectible reinsurance recoverable, the balances are first allocated to applicable reinsurers using management judgment. As part of this process, ceded incurred but not reported (IBNR) reserves are allocated by reinsurer. The ratio of the provision for uncollectible reinsurance recoverable to total non-life run-off reinsurance balances recoverable (excluding provision for uncollectible reinsurance recoverable) as of June 30, 2014 decreased to 18.1% as compared to 19.9% as of December 31, 2013, primarily as a result of reinsurance balances recoverable of Torus acquired during the year that required minimal provisions for uncollectible reinsurance recoverable, and cash collections from reinsurers with minimal bad debt provisions.

Top Ten Reinsurers

At June 30, 2014 and December 31, 2013, the top ten reinsurers of the Company s business accounted for 61.9% and 68.3%, respectively, of total reinsurance balances recoverable (which includes total reinsurance reserves and paid losses recoverable) and included $329.5 million and $290.1 million, respectively, of IBNR reserves recoverable. With the exception of one non-rated reinsurer from which $189.3 million was recoverable (December 31, 2013: $256.2 million recoverable from one non-rated reinsurer and $41.1 million recoverable from one BBB+ rated reinsurer), the other top ten reinsurers, as at June 30, 2014 and December 31, 2013, were all rated A- or better. Reinsurance balances recoverable by reinsurer were as follows:

	June 30, 2014		December 31, 2013	
	Reinsurance Recoverables	% of Total	Reinsurance Recoverables	% of Total
Top 10 reinsurers	$ 945,782	61.9%	$ 930,943	68.3%
Other reinsurers balances > $1 million	569,859	37.3%	423,013	31.0%
Other reinsurers balances < $1 million	11,580	0.8%	9,863	0.7%
Total	$ 1,527,221	100.0%	$ 1,363,819	100.0%

As at June 30, 2014 and December 31, 2013, reinsurance balances recoverable with a carrying value of $342.8 million and $256.2 million, respectively, were associated with two and one reinsurers, respectively, which represented 10% or more of total non-life run-off reinsurance balances recoverable. One of the reinsurers accounting for $153.5 million of reinsurance balances recoverable as at June 30, 2014 was rated A+, while the remaining $189.3 million of reinsurance balances recoverable as at June 30, 2014 were secured by trust funds held for the benefit of the Company s insurance and reinsurance subsidiaries.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table provides the total losses and loss adjustment expense liabilities by segment as at June 30, 2014 and December 31, 2013:

	June 30, 2014				December 31, 2013		
	Non-life Run-off	Atrium	Torus	Total	Non-life Run-off	Atrium	Total
Outstanding	$ 2,501,408	$ 81,087	$ 372,537	$ 2,955,032	$ 2,541,934	$ 79,826	$ 2,621,760
Incurred but not reported	1,673,916	108,850	497,840	2,280,606	1,717,870	98,583	1,816,453
Fair value adjustment	(194,753)	36,983	47,123	(110,647)	(255,291)	36,983	(218,308)
Total	$ 3,980,571	$ 226,920	$ 917,500	$ 5,124,991	$ 4,004,513	$ 215,392	$ 4,219,905

The overall increase in losses and loss adjustment expense liabilities for the Company between December 31, 2013 and June 30, 2014 was attributable to the Company s acquisition of Torus on April 1, 2014.

Refer to Note 8 to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 for more information on establishing reserves for losses and loss adjustment expenses liabilities.

The total net (reduction) increase in ultimate losses and loss adjustment expense liabilities in the Company s non-life run-off, Atrium and Torus segments for the three and six months ended June 30, 2014 and 2013 was as follows:

	Three Months Ended June 30,					
	2014				2013	
	Non-life Run-off	Atrium	Torus	Total	Non-life Run-off	Total
Net losses paid	$ 116,575	$ 12,008	$ 14,249	$ 142,832	$ 43,668	$ 43,668
Net change in case and LAE reserves	(78,421)	2,241	42,264	(33,916)	(64,033)	(64,033)
Net change in IBNR reserves	(54,730)	2,329	23,727	(28,674)	7,369	7,369
(Reduction) increase in estimates of net ultimate losses	(16,576)	16,578	80,240	80,242	(12,996)	(12,996)
Paid loss recoveries on bad debt provisions	(11,206)			(11,206)		

(Reduction) increase in provisions for unallocated loss adjustment expense liabilities	(12,874)	33		(12,841)	(16,795)	(16,795)
Amortization of fair value adjustments	3,454		100	3,554	2,369	2,369
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (37,202)	$ 16,611	$ 80,340	$ 59,749	$ (27,422)	$ (27,422)

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

	Six Months Ended June 30,					
	2014				2013	
	Non-life Run-off	Atrium	Torus	Total	Non-life Run-off	Total
Net losses paid	$ 204,262	$ 24,843	$ 14,249	$ 243,354	$ 127,342	$ 127,342
Net change in case and LAE reserves	(140,819)	3,016	42,264	(95,539)	(122,233)	(122,233)
Net change in IBNR reserves	(92,078)	5,798	23,727	(62,553)	5,366	5,366
(Reduction) increase in estimates of net ultimate losses	(28,635)	33,657	80,240	85,262	10,475	10,475
Paid loss recoveries on bad debt provisions	(11,206)			(11,206)		
(Reduction) increase in provisions for unallocated loss adjustment expense liabilities	(26,233)	85		(26,148)	(33,198)	(33,198)
Amortization of fair value adjustments	(309)		100	(209)	4,462	4,462
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (66,383)	$ 33,742	$ 80,340	$ 47,699	$ (18,261)	$ (18,261)

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

Non-Life Run-off Segment

Three Months Ended June 30, 2014 and 2013

The tables below provide a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the three months ended June 30, 2014 and 2013 of the non-life run-off segment (losses incurred and paid are reflected net of reinsurance recoverables):

	Non-life Run-off Three Months Ended June 30,	
	2014	**2013**
Balance as at April 1	$ 3,821,878	$ 4,143,799
Less: total reinsurance reserves recoverable	1,028,162	947,750
	2,793,716	3,196,049
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:		
Current period	10,209	35,504
Prior periods	(47,411)	(62,926)
Total net reduction in ultimate losses and loss adjustment expense liabilities	(37,202)	(27,422)
Net losses paid:		
Current period	(260)	(2,784)
Prior periods	(105,108)	(40,884)
Total net losses paid	(105,368)	(43,668)
Effect of exchange rate movement	8,032	(9,411)
Acquired on purchase of subsidiaries	386,074	
Assumed business		36,718
Net balance as at June 30	3,045,252	3,152,266
Plus: total reinsurance reserves recoverable	935,319	888,970
Balance as at June 30	$ 3,980,571	$ 4,041,236

Loss reserves acquired on purchase of subsidiaries during the three months ended June 30, 2014 of $386.1 million related to the acquisition of certain lines of business within Torus, which were placed into run-off prior to acquisition. Total net losses paid are shown net of paid loss recoveries on bad debt provisions of $11.2 million.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

The net (reduction) increase in ultimate losses and loss adjustment expense liabilities in the non-life run-off segment for the three months ended June 30, 2014 and 2013 was as follows (a reclassification of $5.7 million was made from 2013 current period net losses paid to acquisition costs in order to conform to current year presentation):

	Non-Life Run-off Three Months Ended June 30,					
	2014			2013		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$ 116,315	$ 260	$ 116,575	$ 40,884	$ 2,784	$ 43,668
Net change in case and LAE reserves	(78,596)	175	(78,421)	(74,166)	10,133	(64,033)
Net change in IBNR reserves	(64,504)	9,774	(54,730)	(15,218)	22,587	7,369
(Reduction) increase in estimates of net ultimate losses	(26,785)	10,209	(16,576)	(48,500)	35,504	(12,996)
Paid loss recoveries on bad debt provisions	(11,206)		(11,206)			
Reduction in provisions for unallocated loss adjustment expense liabilities	(12,874)		(12,874)	(16,795)		(16,795)
Amortization of fair value adjustments	3,454		3,454	2,369		2,369
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (47,411)	$ 10,209	$ (37,202)	$ (62,926)	$ 35,504	$ (27,422)

Net change in case and LAE reserves comprises the movement during the period in specific case reserve liabilities as a result of claims settlements or changes advised to the Company by its policyholders and attorneys, less changes in case reserves recoverable advised by the Company to its reinsurers as a result of the settlement or movement of assumed claims. Net change in IBNR reserves represents the change in the Company s actuarial estimates of losses incurred but not reported, less amounts recoverable.

Three Months Ended June 30, 2014

The net reduction in ultimate losses and loss adjustment expense liabilities for the three months ended June 30, 2014 of $37.2 million included an increase in incurred losses of $10.2 million related to current period earned premium, related primarily to the portion of the run-off business acquired with Torus. Excluding current period incurred losses of $10.2 million, ultimate losses and loss adjustment expenses relating to prior periods were reduced by $47.4 million, which was attributable to a reduction in estimates of net ultimate losses of $26.8 million, paid loss recoveries on bad debt provisions of $11.2 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $12.9 million, relating to 2014 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $3.5 million.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

The reduction in estimates of net ultimate losses relating to prior periods of $26.8 million was primarily related to:

(i) the Company s quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $6.8 million;

(ii) a reduction in IBNR reserves of $10.0 million primarily as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company s actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in Lloyd s Syndicate 2008. The prior period estimate of aggregate IBNR liabilities was reduced as a result of the continued favorable trend of loss development compared to prior forecasts; and

(iii) favorable claims settlements during the three months ended June 30, 2014 resulting in a reduction in estimates of net ultimate losses of approximately $12.8 million.

Three Months Ended June 30, 2013

The net reduction in ultimate losses and loss adjustment expense liabilities for the three months ended June 30, 2013 of $27.4 million included losses incurred of $35.5 million related to premiums earned in the period by SeaBright Holdings, Inc. (SeaBright). Excluding SeaBright s incurred losses of $35.5 million, ultimate losses and loss adjustment expenses relating to prior periods were reduced by $62.9 million. This decrease was attributable to a reduction in estimates of net ultimate losses of $48.5 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $16.8 million, relating to 2013 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $2.4 million.

The reduction in estimates of net ultimate losses relating to prior periods of $48.5 million was due primarily to:

(i) the Company s review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $8.3 million;

(ii) net favorable incurred loss development of $25.0 million (excluding the impact of redundant case reserves of $8.3 million) which included the settlement of net ceded case reserves of $26.2 million (excluding ceded

IBNR recoverable) for net paid receipts of $74.3 million relating to the settlement of five commutations and policy buy-backs of assumed and ceded exposures including the commutation of one of the Company s top ten ceded reinsurance balances recoverable; and

(iii) a reduction in IBNR reserves of $20.2 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company s actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in one of its Bermuda-based reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for this subsidiary was reduced as a result of the favorable trend of loss development during 2013 compared to prior forecasts.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

Six Months Ended June 30, 2014 and 2013

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the six months ended June 30, 2014 and 2013 (losses incurred and paid are reflected net of reinsurance recoverables):

	Non-Life Run-off Six Months Ended June 30,	
	2014	**2013**
Balance as at January 1	$ 4,004,513	$ 3,650,127
Less: total reinsurance reserves recoverable	1,121,533	876,220
	2,882,980	2,773,907
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:		
Current period	11,641	64,037
Prior periods	(78,024)	(82,298)
Total net reduction in ultimate losses and loss adjustment expense liabilities	(66,383)	(18,261)
Net losses paid:		
Current period	(792)	(5,324)
Prior periods	(192,263)	(122,018)
Total net losses paid	(193,055)	(127,342)
Effect of exchange rate movement	7,006	(35,362)
Acquired on purchase of subsidiaries	386,074	479,982
Assumed business	28,630	79,342
Net balance as at June 30	3,045,252	3,152,266
Plus: total reinsurance reserves recoverable	935,319	888,970
Balance as at June 30	$ 3,980,571	$ 4,041,236

Loss reserves acquired on purchase of subsidiaries during the six months ended June 30, 2014 of $386.1 million related to the acquisition of certain lines of business within Torus, which were placed into run-off prior to acquisition. Total net losses paid are shown net of paid loss recoveries on bad debt provisions of $11.2 million.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

The net (reduction) increase in ultimate losses and loss adjustment expense liabilities in the non-life run-off segment for the six months ended June 30, 2014 and 2013 was as follows (a reclassification of $8.1 million was made from 2013 current period net losses paid to acquisition costs so as to conform to current year presentation):

	Non-Life Run-off Six Months Ended June 30,					
		2014			2013	
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$ 203,470	$ 792	$ 204,262	$ 122,018	$ 5,324	$ 127,342
Net change in case and LAE reserves	(141,845)	1,026	(140,819)	(137,612)	15,379	(122,233)
Net change in IBNR reserves	(101,901)	9,823	(92,078)	(37,968)	43,334	5,366
(Reduction) increase in estimates of net ultimate losses	(40,276)	11,641	(28,635)	(53,562)	64,037	10,475
Paid loss recoveries on bad debt provisions	(11,206)		(11,206)			
Reduction in provisions for unallocated loss adjustment expense liabilities	(26,233)		(26,233)	(33,198)		(33,198)
Amortization of fair value adjustments	(309)		(309)	4,462		4,462
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (78,024)	$ 11,641	$ (66,383)	$ (82,298)	$ 64,037	$ (18,261)

Six Months Ended June 30, 2014

The net reduction in ultimate losses and loss adjustment expense liabilities for the six months ended June 30, 2014 of $66.4 million included an increase in ultimate losses of $11.6 million related to current period earned premium, which was primarily with respect to the portion of the run-off business acquired with Torus. Excluding current period incurred losses of $11.6 million, ultimate losses and loss adjustment expenses relating to prior periods were reduced by $78.0 million, which was attributable to a reduction in estimates of net ultimate losses of $40.3 million, paid loss recoveries on bad debt provisions of $11.2 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $26.2 million, relating to 2014 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $(0.3) million.

The reduction in estimates of net ultimate losses relating to prior periods of $40.3 million was related primarily to:

(i) the Company s quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $13.6 million;

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

(ii) a reduction in IBNR reserves of $10.0 million primarily as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company s actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in Lloyd s Syndicate 2008. The prior period estimate of aggregate IBNR liabilities was reduced as a result of the continued favorable trend of loss development compared to prior forecasts; and

(iii) favorable claims settlements during the six months ended June 30, 2014 resulting in a reduction in estimates of net ultimate losses of approximately $19.5 million.

Six Months Ended June 30, 2013

The net reduction in ultimate losses and loss adjustment expense liabilities for the six months ended June 30, 2013 of $18.3 million included incurred losses of $64.0 million related to premiums earned in the period by SeaBright. Excluding SeaBright s incurred losses of $64.0 million, ultimate losses and loss adjustment expenses relating to prior periods were reduced by $82.3 million, which was attributable to a reduction in estimates of net ultimate losses of $53.6 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $33.2 million, relating to 2013 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $4.5 million.

The reduction in estimates of net ultimate losses relating to prior periods of $53.6 million was related primarily to:

(i) the Company s quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $16.6 million;

(ii) net incurred loss development of $1.0 million (excluding the impact of redundant case reserves of $16.6 million), which included the settlement of net ceded case reserves of $26.2 million (excluding ceded IBNR recoverable) for net paid receipts of $74.3 million relating to the settlement of five commutations and policy buy-backs of assumed and ceded exposures including the commutation of one of the Company s top ten ceded reinsurance balances recoverable; and

(iii) a reduction in IBNR reserves of $20.2 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company s actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in one of its Bermuda-based reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for this subsidiary was reduced as a result of the favorable trend of loss development during 2013 compared to prior forecasts.

Atrium and Torus Segments

The Company did not have an active underwriting business for the three or six months ended June 30, 2013. The Company began reporting with respect to its Atrium segment in the fourth quarter of 2013 following the acquisition of Atrium and began reporting with respect to its Torus segment in this second quarter of 2014 following the acquisition of Torus.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

The tables below provide a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the three and six months ended June 30, 2014 (losses incurred and paid are reflected net of reinsurance recoverables):

	Atrium June 30, 2014 Three Months Ended	Torus June 30, 2014 Three Months Ended
Balance as at April 1	$ 220,252	$
Less: total reinsurance reserves recoverable	25,626	
	194,626	
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:		
Current period	18,904	80,340
Prior periods	(2,293)	
Total net increase in ultimate losses and loss adjustment expense liabilities	16,611	80,340
Net losses paid:		
Current period	(5,132)	(2,851)
Prior periods	(6,876)	(11,398)
Total net losses paid	(12,008)	(14,249)
Effect of exchange rate movement	698	(114)
Acquired on purchase of subsidiaries		515,373
Net balance as at June 30	199,927	581,350
Plus: total reinsurance reserves recoverable	26,993	336,150
Balance as at June 30	$ 226,920	$ 917,500

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

	Atrium June 30, 2014 Six Months Ended	Torus June 30, 2014 Six Months Ended
Balance as at January 1	$ 215,392	$
Less: total reinsurance reserves recoverable	25,055	
	190,337	
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:		
Current period	40,218	80,340
Prior periods	(6,476)	
Total net increase in ultimate losses and loss adjustment expense liabilities	33,742	80,340
Net losses paid:		
Current period	(9,816)	(2,851)
Prior periods	(15,027)	(11,398)
Total net losses paid	(24,843)	(14,249)
Effect of exchange rate movement	691	(114)
Acquired on purchase of subsidiaries		515,373
Net balance as at June 30	199,927	581,350
Plus: total reinsurance reserves recoverable	26,993	336,150
Balance as at June 30	$ 226,920	$ 917,500

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

The net (reduction) increase in ultimate losses and loss adjustment expense liabilities for the Company s Atrium and Torus segments for the three and six months ended June 30, 2014 was as follows:

	Three Months Ended June 30, 2014					
	Atrium			Torus		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$ 6,876	$ 5,132	$ 12,008	$ 11,398	$ 2,851	$ 14,249
Net change in case and LAE reserves	(3,857)	6,098	2,241	34,414	7,850	42,264
Net change in IBNR reserves	(5,019)	7,348	2,330	(45,812)	69,539	23,727
(Reduction) increase in estimates of net ultimate losses	(2,000)	18,578	16,578		80,240	80,240
(Reduction) increase in provisions for unallocated loss adjustment expense liabilities	(293)	326	33			
Amortization of fair value adjustments					100	100
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (2,293)	$ 18,904	$ 16,611	$	$ 80,340	$ 80,340

	Six Months Ended June 30, 2014					
	Atrium			Torus		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$ 15,027	$ 9,816	$ 24,843	$ 11,398	$ 2,851	$ 14,249
Net change in case and LAE reserves	(7,842)	10,858	3,016	34,414	7,850	42,264
Net change in IBNR reserves	(13,420)	19,218	5,798	(45,812)	69,539	23,727
(Reduction) increase in estimates of net ultimate losses	(6,235)	39,892	33,657		80,240	80,240
(Reduction) increase in provisions for unallocated loss adjustment expense liabilities	(241)	326	85			
Amortization of fair value adjustments					100	100

Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (6,476)	$ 40,218	$ 33,742	$	$ 80,340	$ 80,340

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. POLICY BENEFITS FOR LIFE AND ANNUITY CONTRACTS

Policy benefits for life and annuity contracts as at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014	December 31, 2013
Life	$ 358,879	$ 380,874
Annuities	948,816	963,323
	1,307,695	1,344,197
Fair value adjustments	(65,839)	(71,097)
	$ 1,241,856	$ 1,273,100

Refer to Note 9 to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2013 for more information on establishing policy benefit reserves.

8. PREMIUMS WRITTEN AND EARNED

The following tables provide a summary of net premiums written and earned in our non-life run-off, Atrium, Torus and life and annuities segments for the three and six month periods ended June 30, 2014 and 2013:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Non-life run-off								
Gross	$ 6,720	$ 22,406	$ 4,444	$ 45,414	$ 8,039	$ 25,174	$ 16,542	$ 79,550
Ceded	(904)	(5,322)	(3,274)	(4,198)	(1,180)	(5,563)	(5,664)	(7,414)
Net	$ 5,816	$ 17,084	$ 1,170	$ 41,216	$ 6,859	$ 19,611	$ 10,878	$ 72,136
Atrium								
Gross	$ 39,857	$ 38,142	$	$	$ 87,434	$ 76,299	$	$
Ceded	(3,868)	(4,145)			(9,720)	(9,663)		
Net	$ 35,989	$ 33,997	$	$	$ 77,714	$ 66,636	$	$

Torus								
Gross	$ 170,646	$ 185,753	$	$	$ 170,646	$ 185,753	$	$
Ceded	(40,205)	(47,514)			(40,205)	(47,514)		
Net	$ 130,441	$ 138,239	$	$	$ 130,441	$ 138,239	$	$
Life and annuities								
Life	$ 27,189	$ 27,596	$ 32,993	$ 34,380	$ 53,185	$ 54,088	$ 33,734	$ 35,121
Total	$ 199,435	$ 216,916	$ 34,163	$ 75,596	$ 268,199	$ 278,574	$ 44,612	$ 107,257

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. PREMIUMS WRITTEN AND EARNED (Continued)

Atrium

Net premiums written and earned by Atrium totaled $36.0 million and $34.0 million, respectively, for the three months ended June 30, 2014, and $77.7 million and $66.6 million, respectively, for the six months ended June 30, 2014.

Torus

Net premiums written and earned by Torus totaled $130.4 million and $138.2 million, respectively, for the three months ended June 30, 2014. In addition, the Company has, for the three and six months ended June 30, 2014, included net premiums written and earned of $5.3 million and $15.9 million, respectively, in its non-life run-off segment relating to certain lines of business within Torus, which have been placed into run-off.

Life and annuities

Life and annuity premiums written in the Company s life and annuities segment totaled $27.2 million and $33.0 million for the three months ended June 30, 2014 and 2013, respectively. Net earned premiums over the same periods totaled $27.6 million and $34.4 million, respectively.

Life and annuity premiums written in the Company s life and annuities segment totaled $53.2 million and $33.7 million for the six months ended June 30, 2014 and 2013, respectively. Net earned premiums over the same periods totaled $54.1 million and $35.1 million, respectively.

The Company s life companies continue to collect premiums in relation to the unexpired policies assumed on acquisition.

9. RETROSPECTIVELY RATED CONTRACTS

On October 1, 2003, SeaBright began selling workers compensation insurance policies for which the premiums varied based on loss experience. Accrued retrospective premiums are determined based upon the loss experience of business subject to such experience rating adjustment, and are determined by and allocated to individual policyholder accounts. Accrued retrospective premiums are recorded as additions to written or earned premium, and return retrospective premiums are recorded as reductions from written or earned premium. During the period from February 7, 2013, the date of the Company s acquisition of SeaBright, to June 30, 2014, none of the Company s direct premiums written related to retrospectively rated contracts. As at June 30, 2014, the Company recognized $8.9 million (December 31, 2013: $8.8 million) for retrospective premiums receivable and $26.6 million (December 31, 2013: $27.5 million) for return retrospective premiums.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. GOODWILL AND INTANGIBLE ASSETS

The following table shows the Company s goodwill and intangible assets as at June 30, 2014 and December 31, 2013:

	Goodwill	Intangible assets with a definite life Other	Intangible assets with an indefinite life	Total	Intangible assets with a definite life - FVA
Balance as at December 31, 2013	$ 60,071	$ 27,000	$ 63,000	$ 150,071	$ 223,947
Acquired during the period	13,000	20,000	23,900	56,900	(106,900)
Intangible assets amortization		(2,019)		(2,019)	(4,702)
Balance as at June 30, 2014	$ 73,071	$ 44,981	$ 86,900	$ 204,952	$ 112,345

Intangible assets with a definite life include:

(i) Fair value adjustments (FVA) relate to outstanding losses and loss adjustment expenses, policy benefits for life and annuity contracts, unearned premiums and reinsurance recoverables and are included as a component of each balance sheet item. FVA are amortized in proportion to future premiums for policy benefits for life and annuity contracts, over the estimated payout or recovery period for outstanding losses and loss adjustment expenses and reinsurance recoverables and as the unearned premiums expire for business in-force as of the acquisition date; and

(ii) Other intangible assets relate to the values associated with the distribution channel, technology and brand related to the Company s acquisitions of Atrium and Torus. These assets are amortized on a straight-line basis over a period ranging from four to fifteen years.

Intangible asset amortization for the three and six months ended June 30, 2014 was $7.9 million and $6.7 million, respectively, as compared to $4.9 million and $7.0 million for the comparative periods in 2013.

Intangible assets with an indefinite life include the values associated with the Lloyd s syndicate capacity for Torus and Atrium, Torus U.S. insurance licenses, and Atrium s management contract with Syndicate 609 in relation to underwriting, actuarial and support services it provides.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. GOODWILL AND INTANGIBLE ASSETS (Continued)

The gross carrying value, accumulated amortization and net carrying value of intangible assets by type at June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014			December 31, 2013		
	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 loss adjustment expense	$ 408,087	$ (297,441)	$ 110,646	$ 500,485	$ (282,178)	$ 218,307
Reinsurance balances recoverable	(193,617)	129,476	(64,141)	(179,116)	113,659	(65,457)
Policy benefits for life and annuity contracts	86,332	(20,492)	65,840	86,332	(15,235)	71,097
Total	300,802	(188,457)	112,345	407,701	(183,754)	223,947
Other:						
Distribution channel	20,000	(776)	19,224	20,000		20,000
Technology	15,000	(625)	14,375			
Brand	12,000	(617)	11,383	7,000		7,000
Total	47,000	(2,018)	44,982	27,000		27,000
Total intangible assets with a definite life	347,802	(190,475)	157,327	434,701	(183,754)	250,947
Intangible assets with an indefinite life:						
Lloyd s syndicate capacity	36,900		36,900	32,900		32,900
Licenses	19,900		19,900			
Management contract	30,100		30,100	30,100		30,100
Total intangible assets	$ 434,702	$ (190,475)	$ 244,227	$ 497,701	$ (183,754)	$ 313,947

As at June 30, 2014 and December 31, 2013, the allocation of the goodwill to the Company s non-life run-off, Atrium and Torus segments was $21.2 million, $38.9 million and $13.0 million, respectively. The Company has not yet completed the process of determining the fair value of the Torus segment goodwill acquired which it expects to be completed within the measurement period, which cannot exceed 12 months from acquisition date.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. LOANS PAYABLE

The Company s long-term debt consists of loan facilities used to partially finance certain of the Company s acquisitions or significant new business transactions and its Revolving Credit Facility (the EGL Revolving Credit Facility), which can be used for permitted acquisitions and for general corporate purposes. The Company s two outstanding credit facilities as at June 30, 2014 (its term facility related to the Company s 2011 acquisition of Clarendon National Insurance Company (the Clarendon Facility) and the EGL Revolving Credit Facility) are described in Note 13 to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

As of June 30, 2014, all of the covenants relating to the two credit facilities were met.

Facility	Date of Facility	Facility Term	June 30, 2014	December 31, 2013
EGL Revolving Credit Facility	July 8, 2013	5 Years	$ 319,550	$ 258,800
SeaBright Facility	December 21, 2012	3 Years		111,000
Clarendon Facility	July 12, 2011	4 Years	65,995	78,995
Total long-term bank debt			385,545	448,795
Accrued interest			667	3,651
Total loans payable			$ 386,212	$ 452,446

EGL Revolving Credit Facility

On March 26, 2014, the Company borrowed $70.0 million under the EGL Revolving Credit Facility. On May 27, 2014, the Company repaid $9.25 million of the outstanding principal under the EGL Revolving Credit Facility.

As of June 30, 2014, the unused portion of the EGL Revolving Credit Facility was approximately $55.5 million.

Clarendon Facility

On March 17, 2014, the Company repaid $13.0 million of the outstanding principal on its Clarendon Facility reducing the outstanding principal as of June 30, 2014 to approximately $66.0 million.

SeaBright Facility

On June 25, 2014, the Company fully repaid the remaining $89.0 million of outstanding principal and accrued interest on its term facility related to the acquisition of SeaBright (the SeaBright Facility). The Company had previously repaid $22.0 million of the outstanding principal on the SeaBright Facility on March 31, 2014.

12. REDEEMABLE NONCONTROLLING INTEREST

Redeemable noncontrolling interest (RNCI) comprises the ownership interest held by Trident in both Bayshore and Northshore. As of June 30, 2014, Trident s RNCI was as follows:

	As at June 30, 2014	
	Bayshore	**Northshore**
Trident	39.32%	38.97%

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. REDEEMABLE NONCONTROLLING INTEREST (Continued)

Northshore owns 100% of Atrium and Arden and Bayshore owns 100% of Torus. The RNCI is classified outside of permanent shareholders equity on the Company s consolidated balance sheets due to the redemption rights held. The redemption rights held by Trident are described in Note 3 to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2013. The Company recognizes changes in the redemption value of the RNCI in Bayshore s and Northshore s earnings as if the balance sheet date was also the redemption date. As at June 30, 2014 and December 31, 2013, there were no adjustments recorded through retained earnings as the redemption value of Trident s interests approximated their carrying values.

On March 30, 2014, Trident contributed $260.8 million to Bayshore in relation to its 40% share of both the purchase price of Torus and the transaction costs related to the acquisition. On May 8, 2014, Dowling purchased common shares of both Northshore and Bayshore from Kenmare and Trident (on a pro rata basis in accordance with their respective interests) for an aggregate amount of $15.4 million. On April 30, 2014, the 2014 portion of time-based restricted shares of Northshore, awarded to Atrium employees vested, which resulted in a deemed capital contribution of $1.9 million. The impact on Trident of these transactions was to reduce its RNCI in both Bayshore and Northshore from 40% to 39.32% and 38.97%, respectively.

A reconciliation of the beginning and ending carrying amount of the equity attributable to the RNCI is as follows:

Redeemable noncontrolling interest	**Trident**
Balance as at December 31, 2013	$ 100,859
Capital contributions	254,635
Net loss attributable to RNCI	(1,120)
Accumulated other comprehensive income attributable to RNCI	367
Transfer of net loss from noncontrolling interest	(1,028)
Balance as at June 30, 2014	$ 353,713

13. SHARE CAPITAL

As at June 30, 2014 and December 31, 2013, the authorized share capital was 111,000,000 ordinary shares (Voting Ordinary Shares) and non-voting convertible ordinary shares (Non-Voting Ordinary Shares), each par value $1.00 per share, and 45,000,000 preference shares of par value $1.00 per share. Each Voting Ordinary Share entitles the holder thereof to one vote. In accordance with the Company s bye-laws, however, any U.S. shareholder or direct foreign shareholder group whose shares constitute 9.5% or more of the voting power of the Voting Ordinary Shares would be entitled to less than one vote for each Voting Ordinary Share held by them.

In connection with the agreement to acquire Torus, on July 8, 2013, the Company s Board of Directors created 4,000,000 shares of Series B Convertible Participating Non-Voting Perpetual Preferred Stock, par value $1.00 per share (the Non-Voting Preferred Shares), from the authorized and unissued preference shares. On completion of the Torus acquisition on April 1, 2014, the Company issued in total 1,501,211 Voting Ordinary Shares and 714,015 Non-Voting Preferred Shares to First Reserve and 397,115 Voting Ordinary Shares to Corsair.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SHARE CAPITAL (Continued)

At the Company s annual general meeting on June 10, 2014, the Company s shareholders approved the amendment to its bye-laws to create the Series E Non-Voting Ordinary Shares, an additional series of Non-Voting Ordinary Shares. Pursuant to the terms of the Non-Voting Preferred Shares, the Non-Voting Preferred Shares held by First Reserve converted on a share-for share basis into Series E Non-Voting Ordinary Shares immediately following the annual general meeting.

Additionally, the amended bye-laws approved by the Company s shareholders provide that all other Non-Voting Ordinary Shares authorized under the Company s bye-laws but not classified as Series A, B, C or D Non-Voting Ordinary Shares will be classified as Series E Non-Voting Ordinary Shares.

The Series E Non-Voting Ordinary Shares:

- have all of the economic rights (including dividend rights) attaching to Voting Ordinary Shares but are non-voting except in certain limited circumstances;

- will automatically convert at a one-for-one exchange ratio (subject to adjustment for share splits, dividends, recapitalizations, consolidations or similar transactions) into Voting Ordinary Shares if the registered holder transfers them in a widely dispersed offering;

- may only vote on matters as required under Bermuda law, and if required to vote under Bermuda law in connection with any merger, consolidation or amalgamation of the Company, would have aggregate voting power not to exceed 0.01% of the aggregate voting power of the Company s issued share capital; and

- require the registered holders written consent in order to vary the rights of the shares in a significant and adverse manner.

Series B, C and D Non-Voting Ordinary Shares are described in Note 15 to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2013. No Series B or Series D Non-Voting Ordinary Shares are issued and outstanding.

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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, 2014 and 2013:

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Basic earnings per ordinary share:				
Net earnings attributable to Enstar Group Limited	$ 51,793	$ 19,197	$ 81,380	$ 31,156
Weighted average ordinary shares outstanding basic	18,636,085	16,525,026	17,605,808	16,519,640
Net earnings per ordinary share attributable to Enstar Group Limited basic	$ 2.78	$ 1.16	$ 4.62	$ 1.89
Diluted earnings per ordinary share:				
Net earnings attributable to Enstar Group Limited	$ 51,793	$ 19,197	$ 81,380	$ 31,156
Weighted average ordinary shares outstanding basic	18,636,085	16,525,026	17,605,808	16,519,640
Share equivalents:				
Unvested shares	64,564	115,159	53,152	119,900
Restricted share units	21,543	17,707	21,012	17,114
Preferred shares	549,242		276,138	
Warrants	56,082	36,051	48,763	28,790
Weighted average ordinary shares outstanding diluted	19,327,516	16,693,943	18,004,873	16,685,444
Net earnings per ordinary share attributable to Enstar Group Limited diluted	$ 2.68	$ 1.15	$ 4.52	$ 1.87

15. EMPLOYEE BENEFITS

The Company s share-based compensation plans provide for the grant of various awards to its employees and to members of the Board of Directors. These are described in Note 17 to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2013. The information below includes both the employee and director components of the Company s share based compensation.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. EMPLOYEE BENEFITS (Continued)

2006 Equity Incentive Plan

The employee share awards for the six months ended June 30, 2014 and 2013 are summarized as follows:

	Six Months Ended June 30, 2014		2013	
	Number of Shares	Weighted Average Fair Value of the Award	Number of Shares	Weighted Average Fair Value of the Award
Nonvested January 1	115,159	$ 15,997	160,644	$ 17,989
Granted	27,418	3,666	2,540	273
Vested	(45,559)	6,091	(48,025)	(5,571)
Nonvested June 30	97,018	$ 14,624	115,159	$ 15,314

The total unrecognized compensation cost related to the Company s non-vested share awards under the Equity Plan as at June 30, 2014 and 2013 was $6.5 million and $6.2 million, respectively. This cost is expected to be recognized over the next 2.1 years. Compensation costs of $0.8 million and $1.5 million relating to these share awards were recognized in the Company s statement of earnings for the three and six months ended June 30, 2014, respectively, as compared to costs of $0.7 million and $1.5 million, respectively, for the three and six months ended June 30, 2013.

For the six months ended June 30, 2014 and 2013, 24,412 and nil shares, respectively, were awarded to non-executive officer employees under the 2006 Equity Incentive Plan (the Equity Plan), in addition to the 3,006 and 2,540 shares issued related to the Company s employee share purchase plan during the same periods, respectively.

Cash-Settled Stock Appreciation Rights

During the three months ended June 30, 2014, the Company granted cash-settled stock appreciation right awards (SARs) under the Equity Plan. SARs give the holder the right, upon exercise, to receive in cash the difference between the market price per share of the Company s ordinary shares at the time of exercise and the exercise price of the SARs. The exercise price of the SAR is equal to the market price of the Company s ordinary shares on the date of the grant. Vested SARs are exercisable for a period not to exceed 10 years from the date of grant.

The Company has recorded compensation expense for the SARs based on the estimated fair value on the date of grant using the Black-Scholes valuation model, which requires the use of subjective assumptions related to the expected stock price volatility, expected term, expected dividend yield and risk-free interest rate. SARs are liability-classified awards for which compensation expense and the liability are re-measured using the then-current Black Scholes assumptions at each interim reporting date based upon the portion of the requisite service period rendered.

During the three months ended June 30, 2014, the Company granted 373,315 SARs to certain employees pursuant to the terms of the Equity Plan and recorded a compensation expense of $1.0 million in respect of the awards.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. EMPLOYEE BENEFITS (Continued)

The following table sets forth the assumptions used to estimate the fair value of the SARs using the Black-Scholes option valuation model as at June 30, 2014:

	June 30, 2014
Weighted average fair value of the SARs	$ 53.80
Weighted average volatility	24.82%
Weighted average risk-free interest rate	0.71%
Dividend yield	

The following table summarizes SARs activity:

	Number of SARs	Weighted Average Exercise Price per SAR	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value [(1)]
Outstanding as at January 1, 2014				
Granted	373,315	$ 138.49		
Outstanding as at June 30, 2014	373,315	$ 138.49	2.34	$ 4,570

(1) The aggregate intrinsic value is calculated as the pre-tax difference between the exercise price of the underlying share awards and the closing price per share of the Company s ordinary shares of $150.73 on June 30, 2014.

2011-2015 Annual Incentive Compensation Program

The accrued expense relating to the Enstar Group Limited 2011-2015 Annual Incentive Compensation Program for the three and six months ended June 30, 2014 was $9.2 million and $14.4 million, respectively, as compared to of $1.1 million and $3.3 million, respectively, for the three and six months ended June 30, 2013.

Enstar Group Limited Employee Share Purchase Plan

For both the three and six months ended June 30, 2014 and 2013, compensation costs of less than $0.1 million and $0.2 million, respectively, relating to the shares issued under the Amended and Restated Enstar Group Limited

Employee Share Purchase Plan (Share Plan) were recognized in the Company s statement of earnings. For the six months ended June 30, 2014 and 2013, 3,006 and 2,540 shares, respectively, have been issued to employees under the Share Plan.

Deferred Compensation and Ordinary Share Plan for Non-Employee Directors

For the six months ended June 30, 2014 and 2013, 2,096 and 1,826 restricted share units, respectively, were credited to the accounts of non-employee directors under the Enstar Group Limited Deferred Compensation and Ordinary Share Plan for Non-Employee Directors. The Company recorded expenses related to the restricted share units for the three and six month periods ended June 30, 2014 of $0.2 million and $0.3 million, respectively, as compared to of $0.1 million and $0.2 million, respectively, for the three and six months ended June 30, 2013.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. EMPLOYEE BENEFITS (Continued)

Pension Plan

The Company provides pension benefits to eligible employees through various plans sponsored by the Company. All pension plans, except for the noncontributory defined benefit pension plan acquired in the Providence Washington transaction in 2010 (the PWAC Plan), are structured as defined contribution plans.

Pension expense for the three and six months ended June 30, 2014 was $3.2 million and $5.3 million, respectively, as compared to $1.8 million and $3.1 million, respectively, for the three and six months periods ended June 30, 2013. The increase for the three and six months ended June 30, 2014 over the same periods in 2013 was attributable to the increase in employee headcount (and associated additional defined contribution plan expense) as a result of the April 2014 acquisition of Torus and the November 2013 acquisition of Atrium.

The Company recorded pension expense relating to the PWAC Plan of $0.1 million and $0.3 million for the three and six month periods ended June 30, 2014, respectively, as compared to $0.2 million and $0.4 million, respectively, for the three and six months periods ended June 30, 2013. The PWAC Plan is described in Note 17 to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

16. TAXATION

Effective January 1, 2014, the Company accounts for income taxes using the estimated annual effective tax rate. The Company makes the best estimate of the annual effective tax rate expected to be applicable for the full fiscal year and applies the rate to the year-to-date income. Discrete tax adjustments are recorded in the quarter in which the event occurs.

Earnings before income taxes includes the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Domestic (Bermuda)	$ 26,969	$ 68,113	$ 33,979	$ 78,047
Foreign	35,792	(38,373)	69,470	(27,478)
Total	$ 62,761	$ 29,740	$ 103,449	$ 50,569

Tax expense (benefit) for income taxes is comprised of:

	Three Months Ended June 30,	Six Months Ended June 30,

	2014	2013	2014	2013
Current:				
Domestic (Bermuda)	$	$	$	$
Foreign	9,715	51	19,982	14,330
	9,715	51	19,982	14,330
Deferred:				
Domestic (Bermuda)				
Foreign	(1,263)	4,491	(4,254)	(1,944)
	(1,263)	4,491	(4,254)	(1,944)
Total tax expense	$ 8,452	$ 4,542	$ 15,728	$ 12,386

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. TAXATION (Continued)

Under current Bermuda law, the Company and its Bermuda subsidiaries are exempted from paying any taxes in Bermuda on their income or capital gains until March 2035.

The Company has operating subsidiaries and branch operations in the United Kingdom, Australia, the United States and Europe and is subject to federal, foreign, state and local taxes in those jurisdictions. In addition, certain distributions from some foreign sources may be subject to withholding taxes.

The expected income tax provision for the foreign operations computed on pre-tax income at the weighted-average tax rate has been calculated as the sum of the pre-tax income in each jurisdiction multiplied by that jurisdiction s applicable statutory tax rate.

The actual income tax rate differed from the amount computed by applying the effective rate of 0% under Bermuda law to earnings before income taxes as shown in the following reconciliation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Earnings before income tax	$ 62,761	$ 29,740	$ 103,449	$ 50,569
Expected tax rate	0.0%	0.0%	0.0%	0.0%
Foreign taxes at local expected rates	16.8%	(66.6)%	17.0%	(24.5)%
Change in uncertain tax positions	0.0%	(1.0)%	(2.2)%	(5.3)%
Change in valuation allowance	(3.5)%	84.2%	0.1%	54.8%
Other	0.2%	(1.3)%	0.3%	(0.5)%
Effective tax rate	13.5%	15.3%	15.2%	24.5%

The Company has estimated future taxable income of its foreign subsidiaries and has provided a valuation allowance in respect of those loss carryforwards where it does not expect to realize a benefit. The Company has considered all available evidence using a more likely than not standard in determining the amount of the valuation allowance.

The Company had unrecognized tax benefits of $nil million and $2.2 million relating to uncertain tax positions as of June 30, 2014 and December 31, 2013, respectively. During the six months ended June 30, 2014, there were certain reductions to unrecognized tax benefits of $2.2 million due to the expiration of statutes of limitation.

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

2010, 2010 and 2007, respectively.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. RELATED PARTY TRANSACTIONS

Stone Point Capital LLC

Following several private transactions occurring from May 2012 to July 2012, Trident acquired 1,350,000 of the Company s voting ordinary shares (which now constitutes approximately 8.5% of the Company s outstanding voting ordinary shares). On November 6, 2013, the Company appointed James D. Carey to its 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, the manager of the Trident funds.

In addition, the Company has entered into certain agreements with Trident with respect to Trident s co-investments in Atrium, Arden, and Torus. These include investors agreements and shareholders agreements, which provide for, among other things: (i) the Company s right to redeem Trident s equity interest in the Atrium/Arden and Torus transactions in cash at fair market value within the 90 days following the fifth anniversary of the Arden and Torus closings, respectively, and at any time following the seventh anniversary of the Arden and Torus closings, respectively; and (ii) Trident s right to have its equity co-investment interests in the Atrium/Arden and Torus transactions redeemed by the Company at fair market value (which the Company may satisfy in either cash or its ordinary shares) following the seventh anniversaries of the Arden closing and Torus closing, respectively. As of June 30, 2014, the Company has included $368.9 million as a component of redeemable noncontrolling interest on its 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 Torus and the holding companies established in connection with the Atrium/Arden and Torus co-investment transactions.

The Company has investments in two funds (carried within other investments) affiliated with entities owned by Trident. As of June 30, 2014 and December 31, 2013, the fair value of the investments in the two funds was $110.3 million and $87.7 million, respectively. During the three months ended March 31, 2014, the Company made a commitment to invest up to $20.0 million in a fund managed by Stone Point Capital LLC, but, as of June 30, 2014, has not yet funded any part of this investment.

During the six months ended June 30, 2014, the Company subscribed to Eagle Point Credit Fund L.P., a fund managed by Eagle Point Credit Management (Eagle Point), which is an affiliate of entities owned by Trident. The Company invested $25.0 million in the fund subsequent to June 30, 2014. The Company also has separate accounts managed by Eagle Point, with respect to which the Company incurred approximately $0.1 million in management fees for each of the three and six months ended June 30, 2014, respectively.

The Company has also invested in a fund managed by Sound Point Capital, an entity in which Mr. Carey has an indirect minority ownership interest and serves as director. As of June 30, 2014 and December 31, 2013, the fair value of this investment was $22.3 million and $21.6 million, respectively. For the six months ended June 30, 2014 and 2013, the Company has recognized $0.7 million and $0.5 million, respectively, in net realized and unrealized gains in respect of this investment.

Goldman Sachs & Co.

Affiliates of Goldman Sachs & Co. (Goldman Sachs) own approximately 4.2% of the Company s Voting Ordinary Shares and 100% of the Company s Series C Non-Voting Ordinary Shares. Sumit

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. RELATED PARTY TRANSACTIONS (Continued)

Rajpal, a managing director of Goldman Sachs, was appointed to the Board of Directors in connection with Goldman Sachs investment in the Company. As of June 30, 2014, the Company had an investment in a fund (carried within other investments) affiliated with entities owned by Goldman Sachs, which had a fair value of $6.9 million. During the six months ended June 30, 2014, the Company invested £12.5 million (approximately $21.4 million) in indirect non-voting interests of two companies affiliated with Hastings Insurance Group Limited. The Company s interests are held in accounts managed by affiliates of Goldman Sachs, with respect to which the Company incurred approximately $0.1 million in management fees for each of the three and six months ended June 30, 2014. Goldman Sachs affiliates have an approximately 50% interest in the Hastings companies, and Mr. Rajpal serves as a director of the entities in which the Company has invested.

Affiliates of Goldman Sachs own approximately 22% of Global Atlantic Financial Group (GAFG), which owns entities that provide reinsurance to Arden. As at June 30, 2014 and December 31, 2013, the Company s total reinsurance recoverable from GAFG entities amounted to $261.2 million and $340.8 million, respectively. As at June 30, 2014 and December 31, 2013, reinsurance balances recoverable from a particular non-rated GAFG entity with a carrying value of $189.3 million and $256.1 million, respectively, represented 10% or more of the Company s total non-life run-off reinsurance balances recoverable. The $189.3 million and $256.1 million recoverable from that GAFG entity at June 30, 2014 and December 31, 2013, respectively, was secured by a trust fund. The balance of $71.8 million and $84.7 million as at June 30, 2014 and December 31, 2013, respectively, was recoverable from GAFG entities rated A- and higher.

18. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

The Company s portfolio of cash and fixed maturity investments is managed pursuant to guidelines that follow what it believes are prudent standards of diversification. The guidelines limit the allowable holdings of a single issue and issuers, and as a result the Company does not believe that there are any significant concentrations of credit risk associated with its portfolio of cash and fixed maturity investments.

The Company s portfolio of other investments is managed pursuant to guidelines that emphasize diversification and liquidity. Pursuant to these guidelines, the Company manages and monitors risk across a variety of investment funds and vehicles, markets and counterparties. The Company believes that there are no significant concentrations of credit risk associated with its other investments.

As of June 30, 2014, the Company s investments are held by 33 different custodians. These custodians are all large financial institutions that are highly regulated. The largest concentration of fixed maturity investments, by fair value, at a single custodian was $3.2 billion and $2.8 billion as of June 30, 2014 and December 31, 2013, respectively.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. COMMITMENTS AND CONTINGENCIES (Continued)

Leases

The Company leases office space under operating leases expiring in various years through 2019. The leases are renewable at the option of the lessee under certain circumstances. The following is a schedule of future minimum rental payments on non-cancellable leases as of June 30, 2014:

2014	$ 12,396
2015	10,394
2016	7,701
2017	6,646
2018	7,315
2019	3,937
	$ 48,389

Investments

The following table provides a summary of the Company s outstanding unfunded investment commitments as of June 30, 2014 and December 31, 2013:

June 30, 2014			December 31, 2013		
Original Commitments	Commitments Funded	Commitments Unfunded	Original Commitments	Commitments Funded	Commitments Unfunded
$311,000	$ 195,362	$ 115,638	$ 291,000	$ 176,760	$ 114,240

Guarantees

As at June 30, 2014 and December 31, 2013, the Company had, in total, parental guarantees supporting a subsidiary s insurance obligations in the amount of $238.6 million and $228.5 million, respectively.

Acquisitions and Significant New Business

The Company has entered into a definitive agreement with respect to the Reciprocal of America loss portfolio transfer, which is expected to close by the end of 2014. This agreement is described in Note 3 Significant New Business.

Legal Proceedings

The Company is, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation regarding claims. The Company does not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material effect on its business, results of operations or financial condition. The Company anticipates that, similar to the rest of the insurance and reinsurance industry, it 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 claims.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION

The Company previously monitored and reported its results of operations in three segments: non-life run-off, life and annuities, and active underwriting. The active underwriting segment was primarily comprised of the results of operations of Atrium and Arden. As a result of the acquisition of Torus on April 1, 2014, the Company began reporting and monitoring its results of operations in four segments:

(i) *Non-life run-off* The Company s non-life run-off segment comprises the operations and financial results of our subsidiaries that are running off their property and casualty and other non-life lines of business together with the run-off businesses of Arden and Torus. It also includes the Company s smaller management business, in which it manages the run-off portfolios of third parties through the Company s service companies.

(ii) *Atrium* Atrium is an underwriting business at Lloyd s of London, which manages Syndicate 609 and provides approximately 25% of the syndicate s underwriting capacity and capital (with the balance provided by traditional Lloyd s Names). Atrium specializes in accident and health, aviation, marine, property, non-marine property, professional liability, property and casualty binding authorities, reinsurance, upstream energy, war and terrorism insurance, cargo and fine art. Arden is a Bermuda-based reinsurance company that provides reinsurance to Atrium (through an approximately 65% quota share reinsurance arrangement with Atrium 5 Ltd, an Atrium subsidiary) and is currently in the process of running off certain other third-party business. Results related to Arden s run-off business are included within the Company s non-life run-off segment.

(iii) *Torus* Torus is a global specialty insurer that offers a diverse range of property, casualty and specialty insurance through its operations in the U.K., Continental Europe, the U.S. and Bermuda. The activities of this segment comprise the active underwriting business of Torus.

(iv) *Life and annuities* The Company s life and annuities segment comprises the operations and financial results of its subsidiaries that are operating its closed-block of life and annuity business, which primarily consists of the companies it acquired in the Pavonia acquisition on March 31, 2013.

Atrium and Torus are reported as separate segments because they are managed and operated in separate and distinct manners. Atrium s senior management runs its day-to-day operations with limited involvement of the Company s senior management, whereas the Company s senior management and employees are involved in Torus day-to-day operations. Atrium employees are not involved in the management or strategy of Torus, nor are Torus employees involved in the management or strategy of Atrium. Atrium and Torus are monitored and reported upon separately and distinctly and their strategies and business plans are determined independently of each other.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

Invested assets are managed on a subsidiary by subsidiary basis, and investment income and realized and unrealized gains on investments are recognized in each segment as earned.

The elimination items include the elimination of intersegment revenues and expenses.

The Company s total assets by segment were:

		June 30, 2014	December 31, 2013
Total assets	Non-life run-off	$ 6,562,512	$ 6,619,992
Total assets	Atrium	599,451	585,176
Total assets	Torus	2,085,266	
Total assets	Life and annuities	1,370,867	1,414,987
		$ 10,618,096	$ 8,620,155

The following tables set forth selected and unaudited condensed consolidated statement of earnings results by segment for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014					
	Non-life run-off	Atrium	Torus	Life and annuities	Eliminations	Consolidated
INCOME						
Net premiums earned	$ 17,084	$ 33,997	$ 138,239	$ 27,596	$	$ 216,916
Fees and commission income	12,218	5,474		13	(10,196)	7,509
Net investment income	22,267	497	1,365	9,952	(432)	33,649
Net realized and unrealized gains	30,926	4	3,218	4,263		38,411
	82,495	39,972	142,822	41,824	(10,628)	296,485
EXPENSES						
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	(37,202)	16,611	80,340			59,749
Acquisition costs	5,652	11,167	29,602	3,958		50,379
Life and annuity policy benefits				27,732		27,732

Salaries and benefits	31,463	4,226	17,600	2,394		55,683
General and administrative expenses	15,579	3,990	25,043	2,761	(10,196)	37,177
Interest expense	2,325	1,204		432	(432)	3,529
Net foreign exchange (gains) losses	(632)	(435)	620	(78)		(525)
	17,185	36,763	153,205	37,199	(10,628)	233,724
EARNINGS (LOSS) BEFORE INCOME TAXES	65,310	3,209	(10,383)	4,625		62,761
INCOME TAXES	(5,223)	(1,280)	(394)	(1,555)		(8,452)
NET EARNINGS (LOSS)	60,087	1,929	(10,777)	3,070		54,309
Less: Net earnings (loss) attributable to noncontrolling interest	(5,574)	(1,293)	4,351			(2,516)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 54,513	$ 636	$ (6,426)	$ 3,070	$	$ 51,793

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

	Six Months Ended June 30, 2014					
	Non-life run-off	**Atrium**	**Torus**	**Life and annuities**	**Eliminations**	**Consolidated**
INCOME						
Net premiums earned	$ 19,611	$ 66,636	$ 138,239	$ 54,088	$	$ 278,574
Fees and commission income	15,173	10,295		34	(10,995)	14,507
Net investment income	36,600	977	1,365	19,941	(886)	57,997
Net realized and unrealized gains	60,555	(103)	3,218	9,314		72,984
	131,939	77,805	142,822	83,377	(11,881)	424,062
EXPENSES						
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	(66,383)	33,742	80,340			47,699
Acquisition costs	5,652	20,728	29,602	7,558		63,540
Life and annuity policy benefits				54,541		54,541
Salaries and benefits	57,311	7,759	17,600	4,403		87,073
General and administrative expenses	31,342	8,031	25,936	5,113	(10,995)	59,427
Interest expense	4,887	2,376		886	(886)	7,263
Net foreign exchange losses (gains)	1,498	(986)	625	(67)		1,070
	34,307	71,650	154,103	72,434	(11,881)	320,613
EARNINGS (LOSS) BEFORE INCOME TAXES	97,632	6,155	(11,281)	10,943	0	103,449
INCOME TAXES	(8,874)	(2,619)	(394)	(3,841)		(15,728)
NET EARNINGS (LOSS)	88,758	3,536	(11,675)	7,102	0	87,721
Less: Net earnings (loss) attributable to noncontrolling interest	(8,645)	(2,403)	4,707			(6,341)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 80,113	$ 1,133	$ (6,968)	$ 7,102	$ 0	$ 81,380

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

	Three Months Ended June 30, 2013			
	Non-life run-off	Life and annuities	Eliminations	Consolidated
INCOME				
Net premiums earned	$ 41,216	$ 34,380		$ 75,596
Fees and commission income	3,536		(576)	2,960
Net investment income	17,180	10,072		27,252
Net realized and unrealized losses	(17,238)	(10,681)		(27,919)
	44,694	33,771	(576)	77,889
EXPENSES				
Net reduction in ultimate losses and loss adjustment expense liabilities	(27,422)			(27,422)
Life and annuity policy benefits		25,562		25,562
Acquisition costs	5,712	3,920		9,632
Salaries and benefits	24,626	1,061		25,687
General and administrative expenses	16,046	4,532	(576)	20,002
Interest expense	2,631	460		3,091
Net foreign exchange (gains) losses	(8,450)	47		(8,403)
	13,143	35,582	(576)	48,149
EARNINGS (LOSS) BEFORE INCOME TAXES	31,551	(1,811)		29,740
INCOME TAXES	(4,534)	(8)		(4,542)
NET EARNINGS (LOSS)	27,017	(1,819)		25,198
Less: Net earnings attributable to noncontrolling interest	(6,001)			(6,001)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 21,016	$ (1,819)	$	$ 19,197

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

	Six Months Ended June 30, 2013			
	Non-life run-off	Life and annuities	Eliminations	Consolidated
INCOME				
Net premiums earned	$ 72,136	$ 35,121		$ 107,257
Fees and commission income	6,164		(757)	5,407
Net investment income	34,871	10,344		45,215
Net realized and unrealized gains (losses)	13,040	(10,839)		2,201
	126,211	34,626	(757)	160,080
EXPENSES				
Net reduction in ultimate losses and loss adjustment expense liabilities	(18,261)			(18,261)
Life and annuity policy benefits		26,322		26,322
Acquisition costs	8,099	3,901		12,000
Salaries and benefits	48,090	1,207		49,297
General and administrative expenses	32,461	6,244	(757)	37,948
Interest expense	5,051	475		5,526
Net foreign exchange (gains) losses	(3,514)	193		(3,321)
	71,926	38,342	(757)	109,511
EARNINGS (LOSS) BEFORE INCOME TAXES	54,285	(3,716)		50,569
INCOME TAXES	(12,358)	(28)		(12,386)
NET EARNINGS (LOSS)	41,927	(3,744)		38,183
Less: Net earnings attributable to noncontrolling interest	(7,027)			(7,027)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 34,900	$ (3,744)	$	$ 31,156

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Enstar Group Limited:

We have reviewed the accompanying condensed consolidated balance sheet of Enstar Group Limited and subsidiaries as of June 30, 2014, and the related condensed consolidated statements of earnings and comprehensive income for the three-month and six-month periods ended June 30, 2014 and 2013, and the related condensed consolidated statements of changes in shareholders equity and cash flows for the six-month periods ended June 30, 2014 and 2013. These condensed consolidated financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Enstar Group Limited and subsidiaries as of December 31, 2013, and the related consolidated statements of earnings, comprehensive income, changes in shareholders equity and cash flows for the year then ended; and in our report dated March 3, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG Audit Limited

Hamilton, Bermuda

August 11, 2014

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Item 2. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

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