

Enstar Group LTD
Form 10-Q
November 05, 2010

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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 September 30, 2010
- OR**
- o** **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
*(State or other jurisdiction
of incorporation or organization)*

N/A
*(I.R.S. Employer
Identification No.)*

P.O. Box HM 2267
Windsor Place, 3rd Floor
18 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 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 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

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company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

As of November 4, 2010, the registrant had outstanding 13,065,169 ordinary shares, par value \$1.00 per share.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****ENSTAR GROUP LIMITED****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****As of September 30, 2010 and December 31, 2009**

	September 30, 2010	December 31, 2009
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, available-for-sale, at fair value (amortized cost: 2010 \$23,596; 2009 \$45,046)	\$ 23,583	\$ 45,206
Short-term investments, held-to-maturity, at amortized cost (fair value: 2010 nil; 2009 \$159,333)		159,210
Short-term investments, trading, at fair value (amortized cost: 2010 \$539,969; 2009 \$nil)	539,985	
Fixed maturities, available-for-sale, at fair value (amortized cost: 2010 \$1,342,419; 2009 \$69,976)	1,361,336	69,892
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2010 \$nil; 2009 \$1,169,934)		1,152,330
Fixed maturities, trading, at fair value (amortized cost: 2010 \$392,120; 2009 \$85,775)	400,498	88,050
Equities, trading, at fair value (cost: 2010 \$66,783; 2009 \$21,257)	71,613	24,503
Other investments, at fair value (cost: 2010 \$274,246; 2009 \$165,872)	200,700	81,801
Total investments	2,597,715	1,620,992
Cash and cash equivalents	823,777	1,266,445
Restricted cash and cash equivalents	395,821	433,660
Accrued interest receivable	25,854	16,108
Accounts receivable, net	12,756	17,657
Income taxes recoverable	7,274	3,277
Reinsurance balances receivable	914,441	638,262
Investment in partly owned company		20,850
Goodwill	21,222	21,222
Other assets	214,069	132,369
TOTAL ASSETS	\$ 5,012,929	\$ 4,170,842

LIABILITIES

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Losses and loss adjustment expenses	\$ 3,233,699	\$ 2,479,136
Reinsurance balances payable	235,017	162,576
Accounts payable and accrued liabilities	54,275	60,878
Income taxes payable	26,339	51,854
Loans payable	207,177	254,961
Other liabilities	83,603	85,285
TOTAL LIABILITIES	3,840,110	3,094,690
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY		
Share capital		
Authorized issued and fully paid, par value \$1 each (authorized 2010: 156,000,000; 2009: 156,000,000)		
Ordinary shares (issued and outstanding 2010: 13,707,014; 2009: 13,580,793)	13,707	13,581
Non-voting convertible ordinary shares (issued 2010: 2,972,892; 2009: 2,972,892)	2,973	2,973
Treasury stock at cost (non-voting convertible ordinary shares 2010: 2,972,892; 2009: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	727,506	721,120
Accumulated other comprehensive income	33,743	8,709
Retained earnings	526,851	477,057
Total Enstar Group Limited Shareholders Equity	883,221	801,881
Noncontrolling interest	289,598	274,271
TOTAL SHAREHOLDERS EQUITY	1,172,819	1,076,152
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 5,012,929	\$ 4,170,842

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents**ENSTAR GROUP LIMITED****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS****For the Three and Nine Month Periods Ended September 30, 2010 and 2009**

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2010	2009	2010	2009
	(expressed in thousands of U.S. dollars, except share and per share data)			
INCOME				
Consulting fees	\$ 2,119	\$ 4,112	\$ 19,747	\$ 11,627
Net investment income	20,165	24,640	69,284	60,442
Net realized gains	10,635	2,912	8,610	1,982
	32,919	31,664	97,641	74,051
EXPENSES				
Net reduction in ultimate loss and loss adjustment expense liabilities:				
Reduction in estimates of net ultimate losses	(20,890)	(44,736)	(57,936)	(92,302)
Reduction in provisions for bad debt	(1,304)		(14,411)	(9,714)
Reduction in provisions for unallocated loss and loss adjustment expense liabilities	(10,171)	(9,830)	(30,832)	(29,370)
Amortization of fair value adjustments	6,250	12,008	25,102	44,756
	(26,115)	(42,558)	(78,077)	(86,630)
Salaries and benefits	18,012	16,997	47,456	41,328
General and administrative expenses	13,185	12,195	39,473	35,487
Interest expense	2,961	4,262	8,160	13,902
Net foreign exchange (gain) loss	(586)	(7,164)	1,387	(7,177)
	7,457	(16,268)	18,399	(3,090)
EARNINGS BEFORE INCOME TAXES AND SHARE OF NET EARNINGS OF PARTLY OWNED COMPANY	25,462	47,932	79,242	77,141
INCOME TAXES	(979)	(2,660)	(23,016)	(2,019)
SHARE OF NET EARNINGS OF PARTLY OWNED COMPANY	1,351	196	10,704	465
NET EARNINGS	25,834	45,468	66,930	75,587
Less: Net earnings attributable to noncontrolling interest	(4,391)	(10,481)	(17,136)	(20,318)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	\$ 21,443	\$ 34,987	\$ 49,794	\$ 55,269

EARNINGS PER SHARE BASIC:

Net earnings attributable to Enstar Group Limited ordinary shareholders	\$	1.56	\$	2.58	\$	3.64	\$	4.10
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EARNINGS PER SHARE DILUTED:

Net earnings attributable to Enstar Group Limited ordinary shareholders	\$	1.53	\$	2.53	\$	3.57	\$	4.03
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Weighted average shares outstanding	basic	13,704,832	13,578,555	13,676,113	13,492,044
Weighted average shares outstanding	diluted	14,019,768	13,814,651	13,956,948	13,729,387

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents**ENSTAR GROUP LIMITED****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Nine Month Periods Ended September 30, 2010 and 2009**

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2010	2009	2010	2009
	(expressed in thousands of U.S. dollars)			
NET EARNINGS	\$ 25,834	\$ 45,468	\$ 66,930	\$ 75,587
Other comprehensive income:				
Unrealized holding gains (losses) on investments arising during the period	29,161	(13,028)	23,509	(27,901)
Reclassification adjustment for net realized gains included in net earnings	(10,635)	(2,912)	(8,610)	(1,982)
Currency translation adjustment	36,662	28,286	19,546	65,511
Total other comprehensive income:	55,188	12,346	34,445	35,628
Comprehensive income	81,022	57,814	101,375	111,215
Less comprehensive income attributable to noncontrolling interest	(19,422)	(14,073)	(26,547)	(34,741)
COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED	\$ 61,600	\$ 43,741	\$ 74,828	\$ 76,474

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents**ENSTAR GROUP LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS EQUITY
For the Nine Month Periods Ended September 30, 2010 and 2009**

	2010	2009
	(expressed in thousands of U.S. dollars)	
Share Capital Ordinary Shares		
Balance, beginning of period	\$ 13,581	\$ 13,334
Issue of shares	47	168
Share awards granted/vested	79	77
Balance, end of period	\$ 13,707	\$ 13,579
Share Capital Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	\$ 2,973	\$ 2,973
Treasury Shares		
Balance, beginning and end of period	\$ (421,559)	\$ (421,559)
Additional Paid-in Capital		
Balance, beginning of period	\$ 721,120	\$ 709,485
Issue of shares	501	5,263
Share awards granted/vested	5,286	3,567
Amortization of share awards	599	
Balance, end of period	\$ 727,506	\$ 718,315
Accumulated Other Comprehensive Income (Loss) Attributable to Enstar Group Limited		
Balance, beginning of period	\$ 8,709	\$ (30,871)
Cumulative translation adjustments	13,726	46,020
Net movement in unrealized holdings gains (losses) on investments	11,308	(24,816)
Balance, end of period	\$ 33,743	\$ (9,667)
Retained Earnings		
Balance, beginning of period	\$ 477,057	\$ 341,847
Net earnings attributable to Enstar Group Limited	49,794	55,269
Balance, end of period	\$ 526,851	\$ 397,116
Noncontrolling Interest		
Balance, beginning of period	\$ 274,271	\$ 256,022
Return of capital	(32,963)	(32,198)

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Contribution of capital	28,742	
Dividends paid	(7,000)	(980)
Net earnings attributable to noncontrolling interest	17,136	20,318
Cumulative translation adjustments	5,821	19,492
Net movement in unrealized holdings gains (losses) on investments	3,591	(5,068)
Balance, end of period	\$ 289,598	\$ 257,586

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents**ENSTAR GROUP LIMITED****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Nine Month Periods Ended September 30, 2010 and 2009**

	2010	2009
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	\$ 66,930	\$ 75,587
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Share of undistributed net earnings of partly owned company	(10,704)	(465)
Net realized and unrealized investment gains	(8,610)	(1,982)
Share of net gain from other investments	(11,225)	(2,334)
Other items	(663)	4,563
Depreciation and amortization	1,053	763
Amortization of bond premiums and discounts	6,540	5,660
Net movement of trading securities held on behalf of policyholders	22,772	18,878
Sales of trading securities	313,654	
Purchases of trading securities	(1,072,799)	
Changes in assets and liabilities:		
Reinsurance balances receivable	(18,743)	23,508
Other assets	(80,229)	6,885
Losses and loss adjustment expenses	184,212	(183,180)
Reinsurance balances payable	24,343	964
Accounts payable and accrued liabilities	(19,142)	52,498
Other liabilities	(27,541)	22,915
Net cash flows (used in) provided by operating activities	(630,152)	24,260
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	155,435	8,504
Purchase of available-for-sale securities		(244,310)
Sales and maturities of available-for-sale securities	57,335	489,778
Purchase of held-to-maturity securities	(780,848)	(697,146)
Sales and maturity of held-to-maturity securities	786,651	56,622
Movement in restricted cash and cash equivalents	73,354	(109,601)
Funding of other investments	(89,426)	(24,255)
Sale of investment in partly owned company	31,554	
Other investing activities	(467)	(2,060)
Net cash flows provided by (used in) investing activities	233,588	(522,468)
FINANCING ACTIVITIES:		
Distribution of capital to noncontrolling interest	(32,963)	(33,178)
Contribution to surplus of subsidiary by noncontrolling interest	28,742	

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Dividends paid to noncontrolling interest	(7,000)	
Receipt of loans	46,400	
Repayment of loans	(93,560)	(97,845)
Proceeds from exercise of stock options		2,796
Net cash flows used in financing activities	(58,381)	(128,227)
TRANSLATION ADJUSTMENT	12,277	59,974
NET DECREASE IN CASH AND CASH EQUIVALENTS	(442,668)	(566,461)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,266,445	1,866,546
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 823,777	\$ 1,300,085

Supplemental Cash Flow Information

Income taxes paid	\$ 58,625	\$ 12,867
Interest paid	\$ 8,103	\$ 10,697

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

September 30, 2010 and December 31, 2009

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

(unaudited)

1. 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. All significant 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 following information should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Adoption of New Accounting Standards

In January 2010, the Company adopted the revised guidance issued by the U.S. Financial Accounting Standards Board (FASB) for the consolidation of variable interest entities. The revised guidance requires an entity to perform an analysis to determine whether the entity's variable interest or interests give it a controlling financial interest in a variable interest entity. It prescribes the determination of whether a reporting entity is required to consolidate another entity based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. The adoption of the revised guidance did not have any impact on the consolidated financial statements.

The Company adopted the revised guidance issued by FASB for the accounting for transfers of financial assets in January 2010. The revised guidance eliminates the concept of a qualifying special-purpose entity; changes the requirements for derecognizing financial assets; and enhances information reported to financial statement users by increasing the transparency of disclosures about transfers of financial assets and an entity's continuing involvement with transferred financial assets. The adoption of the revised guidance did not have any impact on the consolidated financial statements.

Also in January 2010, the Company adopted the revised guidance issued by FASB for the disclosures about fair value measurements. The revised guidance requires additional disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The revised guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The revised guidance is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the revised guidance did not have a material impact on the consolidated financial statements.

On February 24, 2010, FASB amended its guidance on subsequent events to no longer require companies filing periodic reports with the U.S. Securities and Exchange Commission (SEC) to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements in order to alleviate potential conflicts between FASB s guidance and the SEC s filing requirements. This guidance was effective immediately upon issuance. The adoption of this guidance had no impact on the Company s results of operations or financial condition. While the Company s consolidated financial statements no longer disclose the date through

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****1. BASIS OF PREPARATION AND CONSOLIDATION (cont d)**

which it has evaluated subsequent events, the Company continues to be required to evaluate subsequent events through the date when its financial statements are issued.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial statements, or do not apply to its operations.

2. ACQUISITIONS

The Company accounts for acquisitions using the purchase method of accounting, which requires that the acquirer record the assets and liabilities acquired at their estimated fair value. The fair values of reinsurance assets and liabilities acquired are derived from probability weighted ranges of the associated projected cash flows, based on actuarially prepared information and management's run-off strategy. Any amendment to the fair values resulting from changes in such information or strategy will be recognized when the changes occur.

Knapton Insurance (formerly British Engine)

On March 2, 2010, the Company, through its wholly-owned subsidiary, Knapton Holdings Limited (Knapton Holdings), completed the acquisition of Knapton Insurance Limited, formerly British Engine Insurance Limited (Knapton), from RSA Insurance Group plc for a total purchase price of approximately £28.8 million (approximately \$44.0 million). Knapton is a U.K.-domiciled reinsurer that is in run-off. The acquisition was funded from available cash on hand.

The purchase price and fair value of the assets acquired in the Knapton acquisition were as follows:

Total purchase price	\$ 44,031
Net assets acquired at fair value	\$ 44,031

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

Cash	\$ 153,286
Restricted cash	35,515
Investments:	
Short-term investments, trading	5,990
Fixed maturity investments, trading	27,923
Total investments	33,913
Reinsurance balances receivable	50,942

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Other assets	5,840
Losses and loss adjustment expenses	(216,871)
Insurance and reinsurance balances payable	(12,347)
Accounts payable	(6,247)
Net assets acquired at fair value	\$ 44,031

From March 2, 2010, the date of acquisition, to September 30, 2010, the Company has recorded in its consolidated statement of earnings, revenues and net losses related to Knapton of \$1.7 million and \$(0.1) million, respectively.

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. ACQUISITIONS (cont d)**

In April 2010, Knapton Holdings entered into a term facility agreement with a London-based bank (the Knapton Facility). On April 20, 2010, Knapton Holdings drew down \$21.4 million from the Knapton Facility.

Assuransinvest

On March 30, 2010, the Company, through its wholly-owned subsidiary, Nordic Run-Off Limited, completed the acquisition of Forsakringsaktiebolaget Assuransinvest MF (Assuransinvest) for a purchase price of SEK 78.8 million (approximately \$11.0 million). Assuransinvest is a Swedish-domiciled reinsurer that is in run-off. The purchase price was funded from available cash on hand.

The purchase price and fair value of the assets acquired in the Assuransinvest acquisition were as follows:

Total purchase price	\$ 11,042
Net assets acquired at fair value	\$ 11,042

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

Cash	\$ 58,971
Fixed maturity investments, trading	579
Other assets	5
Losses and loss adjustment expenses	(45,021)
Insurance and reinsurance balances payable	(3,130)
Accounts payable	(362)
Net assets acquired at fair value	\$ 11,042

From March 30, 2010, the date of acquisition, to September 30, 2010, the Company has recorded in its consolidated statement of earnings, revenues and net earnings related to Assuransinvest of \$0.1 million and \$0.1 million, respectively.

Providence Washington

On July 20, 2010, the Company, through its wholly-owned subsidiary, PWAC Holdings, Inc., completed the acquisition of PW Acquisition Company (PWAC) for a purchase price of \$25.0 million. PWAC owns the entire share capital of Providence Washington Insurance Company. Providence Washington Insurance Company and its two subsidiaries are Rhode Island-domiciled insurers that are in run-off. The purchase price was financed by a term facility

provided by a London-based bank (the Enstar Facility). The Enstar Facility was fully repaid during the three months ended September 30, 2010.

The purchase price and fair value of the assets acquired in the PWAC acquisition were as follows:

Total purchase price	\$ 25,000
Net assets acquired at fair value	\$ 25,000

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. ACQUISITIONS (cont d)**

The following summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition:

Cash	\$ 19,278
Investments:	
Short-term investments, trading	4,181
Fixed maturity investments, trading	97,756
Equities	37
Other investments	4,985
Total investments	106,959
Accounts receivable and accrued interest	813
Reinsurance balances receivable	31,718
Other assets	1,276
Losses and loss adjustment expenses	(120,745)
Insurance and reinsurance balances payable	(3,597)
Accounts payable	(10,702)
Net assets acquired at fair value	\$ 25,000

From July 20, 2010, the date of acquisition, to September 30, 2010, the Company has recorded in its consolidated statement of earnings, revenues and net losses related to PWAC of \$1.0 million and \$(0.1) million, respectively.

Seaton Insurance

On August 3, 2010, the Company, through its wholly-owned subsidiary, Virginia Holdings Ltd. (Virginia) acquired 55.6% of the shares of Seaton Insurance Company (Seaton) that it previously did not own for a \$nil purchase price, resulting in Virginia owning 100% of Seaton. Seaton is a Rhode Island-domiciled insurer that is in run-off. The acquisition of the Seaton shares was a result of the distribution by Stonewall Acquisition Corporation (SAC) to Virginia of proceeds and certain other assets following its sale of Stonewall Insurance Company to Columbia Insurance Company, an affiliate of National Indemnity Company (an indirect subsidiary of Berkshire Hathaway, Inc.). Prior to the distribution, Virginia had indirectly owned 44.4% of Seaton through its holding in SAC. The purchase price and fair value of the assets acquired in the Seaton acquisition were both \$nil.

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. ACQUISITIONS (cont d)**

The following summarizes the estimated fair values of 100% of the assets acquired and the liabilities assumed at the date of the acquisition:

Cash	\$ 3,949
Fixed maturity investments, trading	22,745
Accounts receivable and accrued interest	270
Reinsurance balances receivable	170,344
Other assets	3,759
Losses and loss adjustment expenses	(171,010)
Insurance and reinsurance balances payable	(28,670)
Accounts payable	(1,387)
Net assets acquired at fair value	\$

From August 3, 2010, the date of acquisition, to September 30, 2010, the Company has recorded in its consolidated statement of earnings, revenues and net losses related to Seaton of \$0.4 million and \$(0.5) million, respectively.

Claremont

On September 7, 2010, the Company, through its wholly-owned subsidiary CLIC Holdings, Inc., entered into a definitive agreement for the acquisition of Claremont Liability Insurance Company, or Claremont, for an aggregate purchase price of \$13.5 million and an additional amount based on a purchase price adjustment to be calculated at closing. The purchase price is expected to be financed from available cash on hand. Claremont is a California-domiciled insurer that is in run-off. Completion of the transaction is conditioned on, among other things, regulatory approval and satisfaction of various customary closing conditions. The transaction is expected to close in the fourth quarter of 2010.

New Castle

On September 22, 2010, the Company, through its wholly-owned subsidiary Kenmare Holdings Ltd., entered into a definitive agreement for the acquisition of New Castle Reinsurance Company Ltd., or New Castle, for an aggregate purchase price of \$24.0 million, subject to potential purchase price adjustments at closing. The purchase price is expected to be financed from available cash on hand. New Castle is a Bermuda-domiciled insurer that is in run-off. Completion of the transaction is conditioned on, among other things, regulatory approval and satisfaction of various customary closing conditions. The transaction is expected to close in the fourth quarter of 2010.

Brampton

On November 2, 2010, the Company acquired the 49.9% of the shares of Hillcot Holdings Ltd. (Hillcot) that it did not previously own from Shinsei Bank, Ltd. (Shinsei) for a purchase price of \$38.0 million, resulting in the Company

owning 100% of Hillcot. At the time of acquisition, Hillcot owned 100% of the shares of Brampton Insurance Company Limited, a U.K.-domiciled reinsurer that is in run-off. J. Christopher Flowers, a member of the Company's board of directors and one of its largest shareholders, is a director and the largest shareholder of Shinsei. The accounting for this business combination has not been completed at the time of issuance of these financial statements.

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ENSTAR GROUP LIMITED

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

3. SIGNIFICANT NEW BUSINESS

Shelbourne RITC Transactions

In December 2007, the Company, in conjunction with JCF FPK I L.P. (JCF FPK) and a newly-hired executive management team, formed U.K.-based Shelbourne Group Limited (Shelbourne) to invest in Reinsurance to Close or RITC transactions (the transferring of liabilities from one Lloyd s syndicate to another) with Lloyd s of London insurance and reinsurance syndicates in run-off. The Company owns approximately 56.8% of Shelbourne, which in turn owns 100% of Shelbourne Syndicate Services Limited, the Managing Agency for Lloyd s Syndicate 2008, a syndicate approved by Lloyd s of London on December 16, 2007 to undertake RITC transactions with Lloyd s syndicates in run-off.

In February 2010, Lloyd s Syndicate 2008 entered into RITC agreements with two Lloyd s syndicates with total gross insurance reserves of approximately \$170.3 million. The capital commitment to Lloyd s Syndicate 2008 with respect to these two RITC agreements amounted to £25.0 million (approximately \$37.5 million), which was fully funded by the Company from available cash on hand.

JCF FPK is a joint investment program between Fox-Pitt, Kelton, Cochran, Caronia & Waller (USA) LLC (FPK) and J.C. Flowers II, L.P. (the Flowers Fund). The Flowers Fund is a private investment fund advised by J.C. Flowers & Co. LLC. J. Christopher Flowers, a member of the Company s board of directors and one of the Company s largest shareholders, is the Chairman and Chief Executive Officer of J.C. Flowers & Co. LLC. John J. Oros who was the Company s Executive Chairman and a member of the Company s board of directors until his resignation on August 20, 2010, is a Managing Director of J.C. Flowers & Co. LLC. In addition, an affiliate of the Flowers Fund controlled approximately 41% of FPK until its sale of FPK in December 2009.

Fitzwilliam

In February 2010, the Company, through its wholly-owned subsidiary Fitzwilliam Insurance Limited (Fitzwilliam), entered into a 100% quota share reinsurance agreement with Allianz Global Corporate & Specialty AG (UK) Branch (Allianz) with respect to a specific portfolio of run-off business of Allianz. Fitzwilliam received total assets and assumed total gross reinsurance reserves of approximately \$112.6 million.

In July 2010, following the acquisition of the entire issued share capital of Glacier Insurance AG by Torus Insurance (Bermuda) Limited (Torus), Fitzwilliam entered into two quota share reinsurance agreements with Torus protecting the prior year reserve development of two portfolios of business reinsured by them: a 79% quota share of Torus 95% quota share reinsurance of Glacier Insurance AG, and a 75% quota share of Torus 100% quota share reinsurance of Glacier Reinsurance AG. Fitzwilliam received total assets and assumed total gross reinsurance reserves of approximately \$105.0 million.

Bosworth

In May 2010, a specific portfolio of run-off business underwritten by Mitsui Sumitomo Insurance Co., Ltd. of Japan (Mitsui) was transferred to the Company s 50.1% owned subsidiary, Bosworth Run-off Limited (Bosworth). This transfer, which occurred under Part VII of the U.K. Financial Services and Markets Act 2000, was approved by the

U.K. Court and took effect on May 31, 2010. As a result of the transfer, Bosworth received total assets and assumed net reinsurance reserves of approximately \$117.5 million. Shinsei owns the remaining 49.9% of Bosworth.

4. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents were \$395.8 million and \$433.7 million as of September 30, 2010 and December 31, 2009, respectively. The restricted cash and cash equivalents are used as collateral against letters of credit and as guarantee under trust agreements. Letters of credit are issued to ceding insurers as security for the obligations of insurance subsidiaries under reinsurance agreements with those ceding insurers.

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS***Available-for-sale*

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

	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Losses Non-OTTI	Fair Value
<u>As at September 30, 2010</u>				
U.S. government and agency	\$ 108,202	\$ 1,162	\$ (110)	\$ 109,254
Non-U.S. government	291,278	4,204	(159)	295,323
Corporate	888,730	16,950	(1,243)	904,437
Residential mortgage-backed	24,071	292	(341)	24,022
Commercial mortgage-backed	25,241	378	(2,828)	22,791
Asset backed	28,493	1,017	(418)	29,092
	\$ 1,366,015	\$ 24,003	\$ (5,099)	\$ 1,384,919

	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Losses Non-OTTI	Fair Value
<u>As at December 31, 2009</u>				
U.S. government and agency	\$ 14,079	\$ 227	\$	\$ 14,306
Non-U.S. government	37,166	33	(13)	37,186
Corporate	62,092	825	(867)	62,050
Residential mortgage-backed	1,685	31	(160)	1,556
	\$ 115,022	\$ 1,116	\$ (1,040)	\$ 115,098

The following tables summarize the Company's fixed maturity securities 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 security has continuously been in an unrealized loss position:

	12 Months or Greater		Less Than 12 Months		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
<u>As at September 30, 2010</u>						
U.S. government and agency	\$	\$	\$ 39,789	\$ (110)	\$ 39,789	\$ (110)
Non-U.S. government			38,361	(159)	38,361	(159)
Corporate	27,988	(684)	129,757	(559)	157,745	(1,243)
Residential mortgage-backed	1,743	(143)	15,435	(198)	17,178	(341)
Commercial mortgage-backed	6,607	(2,703)	8,909	(125)	15,516	(2,828)
Asset backed	5,425	(52)	9,771	(366)	15,196	(418)
	\$ 41,763	\$ (3,582)	\$ 242,022	\$ (1,517)	\$ 283,785	\$ (5,099)

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>As at December 31, 2009</u>						
Non-U.S. government	\$	\$	\$ 782	\$ (13)	\$ 782	\$ (13)
Corporate	10,894	(786)	5,348	(81)	16,242	(867)
Residential mortgage-backed	369	(160)			369	(160)
	\$ 11,263	\$ (946)	\$ 6,130	\$ (94)	\$ 17,393	\$ (1,040)

As at September 30, 2010 and December 31, 2009, the number of securities classified as available-for-sale in an unrealized loss position was 148 and 20, respectively, with a fair value of \$283.8 million and \$17.4 million, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 27 and 11, respectively. As at September 30, 2010, none of these securities were considered to be other-than-temporarily impaired.

The contractual maturities of the Company's fixed maturity securities 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.

	Amortized Cost	Fair Value	% of Total Fair Value
<u>As at September 30, 2010</u>			
Due in one year or less	\$ 439,785	\$ 442,126	31.9%
Due after one year through five years	837,937	855,973	61.8%
Due after five years through ten years	5,320	5,529	0.4%
Due after ten years	5,168	5,386	0.4%
	1,288,210	1,309,014	94.5%
Residential mortgage-backed	24,071	24,022	1.7%
Commercial mortgage-backed	25,241	22,791	1.7%
Asset backed	28,493	29,092	2.1%
	\$ 1,366,015	\$ 1,384,919	100%

	Amortized Cost	Fair Value	% of Total Fair Value
<u>As at December 31, 2009</u>			
Due in one year or less	\$ 64,202	\$ 64,606	56.1%
Due after one year through five years	39,951	40,305	35.0%
Due after five years through ten years	5,811	5,783	5.0%
Due after ten years	3,373	2,848	2.5%
	113,337	113,542	98.6%
Residential mortgage-backed	1,685	1,556	1.4%
	\$ 115,022	\$ 115,098	100.0%

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

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

	Amortized Cost	Fair Value	% of Total Fair Value
<u>As at September 30, 2010</u>			
AAA	\$ 559,727	\$ 563,892	40.7%
AA	343,163	348,843	25.2%
A	363,860	371,294	26.8%
BBB or lower	98,875	100,447	7.3%
Not Rated	390	443	0.0%
	\$ 1,366,015	\$ 1,384,919	100.0%

	Amortized Cost	Fair Value	% of Total Fair Value
<u>As at December 31, 2009</u>			
AAA	\$ 54,157	\$ 54,229	47.1%
A	32,764	32,886	28.6%
BBB or lower	13,848	13,596	11.8%
Not Rated	14,253	14,387	12.5%
	\$ 115,022	\$ 115,098	100.0%

Held-to-maturity

As of September 30, 2010, the Company has redesignated \$1.33 billion in investment securities from the held-to-maturity category to the available-for-sale category, following the disposition of certain held-to-maturity securities in one of the Company's Australian insurance subsidiaries. The speed of settlement of the liabilities in this subsidiary has been notably greater than was originally anticipated, prompting the Company to apply to the subsidiary's regulator for a reduction in required capital levels. Upon the approval, on September 1, 2010, of the capital reduction in the amount of \$148.2 million, the Company evaluated the funding alternatives relating to the capital distribution and, as a result, reconsidered its intent to hold certain securities to maturity and sold securities with a carrying value of \$33.4 million that had previously been designated held-to-maturity. The proceeds from these sales were \$36.5 million, resulting in a realized gain of \$3.1 million.

During September 2010, requests were made to regulators, that are pending approval, for capital releases, in certain of the Company's other insurance subsidiaries, for amounts that are also greater than was originally anticipated. Further to both approved and pending requests for capital releases greater than originally anticipated in certain of the Company's insurance subsidiaries, the Company reevaluated its intent with respect to its remaining held-to-maturity securities. The Company concluded that, as of September 30, 2010, it no longer had the positive intent to hold its held-to-maturity securities to maturity. The Company does not plan to designate securities as held-to-maturity for at least two years and believes that maintaining its securities in the available-for-sale category provides greater flexibility in the management of the overall investment portfolio.

As a result of redesignation, the held-to-maturity securities with an amortized cost of \$1.15 billion have been transferred to the available-for-sale category at the fair value of \$1.33 billion, with unrealized gains of \$18.0 million recorded in accumulated other comprehensive income.

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

The amortized cost and estimated fair value of the Company's fixed maturity securities and short-term investments classified as held-to-maturity as at December 31, 2009 were as follows:

	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Losses Non-OTTI	Fair Value
U.S. government and agency	\$ 164,706	\$ 1,659	\$ (196)	\$ 166,169
Non-U.S. government	276,506	3,069	(131)	279,444
Corporate	780,099	15,794	(1,284)	794,609
Municipal	9,649	6	(1)	9,654
Residential mortgage-backed	15,894	165	(427)	15,632
Commercial mortgage-backed	30,608	1,130	(1,970)	29,768
Asset backed	34,078	477	(564)	33,991
	\$ 1,311,540	\$ 22,300	\$ (4,573)	\$ 1,329,267

The following table summarizes the Company's fixed maturity securities and short-term investments classified as held-to-maturity in an unrealized loss position as at December 31, 2009 and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency	\$	\$	\$ 53,674	\$ (196)	\$ 53,674	\$ (196)
Non-U.S. government			44,477	(131)	44,477	(131)
Corporate	3,892	(249)	153,220	(1,034)	157,112	(1,283)
Municipal			8,641	(1)	8,641	(1)
Residential mortgage-backed	2,109	(277)	6,494	(151)	8,603	(428)
Commercial mortgage-backed			11,931	(1,970)	11,931	(1,970)
Asset backed	889	(86)	21,817	(478)	22,706	(564)
	\$ 6,890	\$ (612)	\$ 300,254	\$ (3,961)	\$ 307,144	\$ (4,573)

As at December 31, 2009, the number of fixed maturity securities classified as held-to-maturity in an unrealized loss position was 135, with a fair value of \$307.1 million. Of these securities, the number of securities that had been in an unrealized loss position for 12 months or longer was 19.

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)***Trading*

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

	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Losses Non-OTTI	Fair Value
<u>As at September 30, 2010</u>				
U.S. government and agency	\$ 117,991	\$ 5,131	\$	\$ 123,122
Non-U.S. government	125,106	100	(35)	125,171
Corporate	617,554	3,692	(190)	621,056
Municipal	1,591	19	(5)	1,605
Residential mortgage-backed	61,668	179	(342)	61,505
Commercial mortgage-backed	7,818	71	(226)	7,663
Asset backed	361			361
Equities	66,783	6,351	(1,521)	71,613
	\$ 998,872	\$ 15,543	\$ (2,319)	\$ 1,012,096

	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Losses Non-OTTI	Fair Value
<u>As at December 31, 2009</u>				
U.S. government and agency	\$ 60,355	\$ 1,696	\$ (131)	\$ 61,920
Corporate	23,894	1,139		25,033
Residential mortgage-backed	474	4	(22)	456
Commercial mortgage-backed	1,051		(410)	641
Equities	21,258	3,854	(609)	24,503
	\$ 107,032	\$ 6,693	\$ (1,172)	\$ 112,553

Other Investments

	September 30, 2010	December 31, 2009
Private equity	\$ 86,383	\$ 77,359
Short-duration high yield bond fund	51,879	
Hedge funds	20,899	
Other	41,539	4,442
	\$ 200,700	\$ 81,801

At September 30, 2010 and December 31, 2009, the Company had \$86.4 million and \$77.4 million, respectively, of private equity investments recorded in limited partnerships and limited liability companies. These

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ENSTAR GROUP LIMITED

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5. INVESTMENTS (cont d)

private equity investments represented 2.3% of total investments and cash and cash equivalents at both September 30, 2010 and December 31, 2009. All of the Company's investments in limited partnerships and limited liability companies are subject to restrictions on redemptions and sales that are determined by the governing documents and limit the Company's ability to liquidate these investments in the short term. 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. These investments are accounted for at estimated fair value determined by the Company's proportionate share of the net asset value of the investee reduced by any impairment charges. As at September 30, 2010 and December 31, 2009, the Company had unfunded capital commitments relating to its private equity investments of \$97.9 and \$101.1 million, respectively.

Other-Than-Temporary Impairment Process

Upon the adoption of the new guidance on investments in debt and equity securities, effective April 1, 2009, the Company changed its quarterly process for assessing whether declines in the fair value of its fixed maturity investments, both available-for-sale and held-to-maturity, represented impairments that are other-than-temporary. The process now includes reviewing each fixed maturity investment that is impaired and determining: (i) if the Company has the intent to sell the fixed maturity investment or (ii) if it is more likely than not that the Company will be required to sell the fixed maturity investment before its anticipated recovery; and (iii) assessing whether a credit loss exists, that is, where the Company expects that the present value of the cash flows expected to be collected from the fixed maturity investment are less than the amortized cost basis of the investment.

The Company had no planned sales of its fixed maturity investments classified as available-for-sale in an unrealized loss position as at September 30, 2010. 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 nine months ended September 30, 2010, the Company did not recognize any other-than-temporary impairments due to required sales.

In evaluating credit losses, the Company considers a variety of factors in the assessment of a fixed maturity investment including: (1) the time period during which there has been a significant decline below cost; (2) the extent of the decline below cost and par; (3) the potential for the fixed maturity investment to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the fixed maturity investment to make scheduled interest or principal payments.

Based on the factors described above, the Company determined that, as at September 30, 2010, no credit losses existed.

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.

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ENSTAR GROUP LIMITED

**NOTES TO THE UNAUDITED CONDENSED
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5. INVESTMENTS (cont d)

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 portfolio is managed by the Company's Chief Investment Officer and outside investment advisors. The Company uses nationally recognized pricing services, including pricing vendors, index providers and broker-dealers to estimate fair value measurements for all of its fixed maturity investments. These pricing services include Barclays Capital Aggregate Index (formerly Lehman Index), Reuters Pricing Service, FT Interactive Data and others.

The pricing services use market quotations for securities (e.g., public common and preferred securities) that have quoted prices in active markets. When quoted market prices are unavailable, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing.

With the exception of two securities within the Company's trading portfolio, the fair value estimates of its fixed maturity investments are based on observable market data. The Company has therefore included these as Level 2 investments within the fair value hierarchy. The two securities in its trading portfolio that do not have observable inputs have been included as Level 3 investments within the fair value hierarchy.

To validate the techniques or models used by the pricing services, the Company compares the fair value estimates to its knowledge of the current market and will challenge any prices deemed not to be representative of fair value.

As of September 30, 2010 there were no material differences between the prices obtained from the pricing services and the fair value estimates developed by the Company.

Equity Securities

The Company's equity securities are managed by two external advisors. Through these third parties, the Company uses nationally recognized pricing services, including pricing vendors, index providers and broker-dealers to estimate fair value measurements for all of its equity securities. These pricing services include FT Interactive Data and others.

The Company has categorized all of its investments in common stock as Level 1 investments because the fair values of these securities are based on quoted prices in active markets for identical assets or liabilities. The Company has

categorized all of its investments in preferred stock as Level 2 (except one which was categorized as Level 3) because their fair value estimates are based on observable market data.

Other Investments

For its investments in hedge funds, limited partnerships and limited liability companies, 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 financial statements of each fund generally are audited annually, using

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

fair value measurement for the underlying investments. For all publicly traded companies within the funds, the Company has valued those investments based on the latest share price. The value of Affirmative Investment LLC (in which the Company owns a non-voting 7% membership interest) is based on the market value of the shares of Affirmative Insurance Holdings, Inc., a publicly traded company.

All of the Company's investments in limited partnerships and limited liability companies 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 in the short term.

The Company has classified its hedge funds, limited partnerships and limited liability companies as Level 3 investments because they reflect the Company's own judgment about the assumptions that market participants might use.

The short duration high yield fund and other bond funds have been classified as Level 2 investments because their fair value is estimated using the net asset value reported by Bloomberg and they have daily liquidity.

Fair Value Measurements

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

	September 30, 2010			
	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	\$	\$ 232,375	\$	\$ 232,375
Non-U.S. government		420,494		420,494
Corporate		1,524,987	504	1,525,491
Municipal		1,606		1,606
Residential mortgage-backed		85,528		85,528
Commercial mortgage-backed		29,582	872	30,454
Asset backed		29,454		29,454
Equities	53,105	15,033	3,475	71,613
Other investments		86,829	113,871	200,700

Total investments	\$	53,105	\$	2,425,888	\$	118,722	\$	2,597,715
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	December 31, 2009				Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
U.S. government and agency	\$		\$ 76,226	\$	\$ 76,226
Non-U.S. government			37,186		37,186
Corporate			87,083		87,083
Residential mortgage-backed			2,012		2,012
Commercial mortgage-backed				641	641
Equities	21,203			3,300	24,503
Other investments				81,801	81,801
Total investments	\$ 21,203	\$ 202,507	\$ 85,742	\$ 309,452	

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 September 30, 2010.

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of July 1, 2010	\$ 1,394	\$ 104,079	\$ 3,238	\$ 108,711
Net purchases (sales and distributions)		7,832		7,832
Total realized and unrealized (losses)/gains	(18)	1,960	237	2,179
Net transfers in and/or (out) of Level 3				
Level 3 investments as of September 30, 2010	\$ 1,376	\$ 113,871	\$ 3,475	\$ 118,722

The amount of net gains/(losses) for the three months ended September 30, 2010 included in earnings attributable to the fair value of changes in assets still held at September 30, 2010 was \$(0.3) million. Of this amount, \$0.2 million was included in net realized gains/(losses) and \$(0.5) million was included in net investment income.

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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 September 30, 2009:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of July 1, 2009	\$ 263	\$ 71,039	\$ 3,200	\$ 74,502
Net purchases (sales and distributions)		517		517
Total realized and unrealized gains	315	4,807	150	5,272
Net transfers in and/or (out) of Level 3				
Level 3 investments as of September 30, 2009	\$ 578	\$ 76,363	\$ 3,350	\$ 80,291

The amount of net gains for the three months ended September 30, 2009 included in earnings attributable to the fair value of changes in assets still held at September 30, 2009 was \$4.3 million. Of this amount, \$0.5 million was included in net realized gains and \$3.8 million was included in net investment income.

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using the Level 3 inputs during the nine months ended September 30, 2010:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of January 1, 2010	\$ 641	\$ 81,801	\$ 3,300	\$ 85,742
Net purchases (sales and distributions)	579	24,078		24,657
Total realized and unrealized gains	156	7,992	175	8,323
Net transfers in and/or (out) of Level 3				
Level 3 investments as of September 30, 2010	\$ 1,376	\$ 113,871	\$ 3,475	\$ 118,722

The amount of net gains for the nine months ended September 30, 2010 included in earnings attributable to the fair value of changes in assets still held at September 30, 2010 was \$9.1 million. Of this amount, \$0.3 million was included in net realized gains and \$8.8 million was included in net investment income.

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using the Level 3 inputs during the nine months ended September 30, 2009:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of January 1, 2009	\$ 352	\$ 60,237	\$	\$ 60,589
Net purchases (sales and distributions)		12,932	2,006	14,938
Total realized and unrealized gains	226	3,194	1,344	4,764
Net transfers in and/or (out) of Level 3				
Level 3 investments as of September 30, 2009	\$ 578	\$ 76,363	\$ 3,350	\$ 80,291

The amount of net gains for the nine months ended September 30, 2009 included in earnings attributable to the fair value of changes in assets still held at September 30, 2009 was \$3.7 million. Of this amount, \$1.6 million was included in net realized gains and \$2.1 million was included in net investment income.

During the nine months ended September 30, 2010 and 2009, proceeds from the sales and maturities of available-for-sale securities were \$57.3 million and \$489.8 million, respectively. Gross realized gains on sales of available-for-sale

securities were \$0.1 million and \$0.1 million, respectively, and gross unrealized losses on sales of available-for-sale securities were \$nil and \$0.6 million, respectively. Unrealized gains on trading securities were \$3.9 million for both the nine months ended September 30, 2010 and 2009.

Restricted Investments

The Company is required to maintain investments on deposit with various regulatory authorities to support its insurance and reinsurance operations. The investments 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 investments in

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INVESTMENTS (cont d)**

trust as collateral are primarily highly rated fixed maturity securities. The carrying value of the Company's restricted investments as of September 30, 2010 and December 31, 2009 was as follows:

	September 30, 2010	December 31, 2009
Assets used for collateral in trust for third-party agreements	\$ 354,521	\$ 214,149
Deposits with U.S. regulatory authorities	33,281	12,998
	\$ 387,802	\$ 227,147

6. INVESTMENT IN PARTLY OWNED COMPANIES

On June 13, 2008, the Company's indirect subsidiary Virginia completed the acquisition from Dukes Place Holdings, L.P. (a portfolio company of GSC European Mezzanine Fund II, L.P.) of 44.4% of the outstanding capital stock of SAC, the parent of two Rhode Island-domiciled insurers in run-off, Stonewall Insurance Company and Seaton. The total purchase price, including acquisition costs, was \$21.4 million and was funded from available cash on hand. SAC entered into a definitive agreement on December 3, 2009 for the sale of its shares in Stonewall Insurance Company to Columbia Insurance Company, an affiliate of National Indemnity Company (an indirect subsidiary of Berkshire Hathaway, Inc.), for a sale price of \$56.0 million, subject to certain post-closing purchase price adjustments that brought the total consideration received to \$60.4 million. The transaction received the required regulatory approval on March 31, 2010 and subsequently closed on April 7, 2010. The proceeds received by SAC were later distributed among Dukes Place Holdings, L.P. and Virginia. The investment was carried on the equity basis until the distribution. When the Company carries an investment on the equity basis, the investment is initially recorded at cost and adjusted to reflect the Company's share of after-tax earnings or losses and unrealized investment gains and losses and reduced by dividends.

As discussed in Note 2 above, on August 3, 2010, Virginia acquired 55.6% of the shares of Seaton that it previously did not own for \$nil consideration, resulting in Virginia owning 100% of Seaton. The acquisition of the Seaton shares was a result of the distribution by SAC of proceeds and certain other assets following its sale of Stonewall Insurance Company. Virginia received 100% of the final \$1.4 million distribution from SAC.

The following summarized financial information for SAC is derived from its unaudited quarterly financial statements:

Three Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
2010	2009	2010	2009

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Total revenues	\$ 3,008	\$ 1,941	\$ 8,757	\$ 5,045
Total expenses	(1,657)	(1,501)	11,301	(3,998)
Income from continuing operations	1,351	440	20,058	1,047
Net income	1,351	440	20,058	1,047

The balance of the investment in partly owned company was \$nil and \$20.9 million at September 30, 2010 and December 31, 2009, respectively.

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the three months ended September 30, 2010 and 2009. Losses incurred and paid are reflected net of reinsurance reserves recoverable.

	Three Months Ended September 30,	
	2010	2009
Balance as at July 1,	\$ 2,894,353	\$ 2,781,577
Less: total reinsurance reserves recoverable	421,864	375,431
	2,472,489	2,406,146
Net reduction in ultimate losses and loss adjustment expense liabilities	(26,115)	(42,558)
Net losses paid	(80,501)	(50,756)
Effect of exchange rate movement	80,839	15,867
Retroactive reinsurance contracts assumed	100,136	
Acquired on purchase of subsidiaries	198,498	
Net balance as at September 30	\$ 2,745,346	\$ 2,328,699
Plus: total reinsurance reserves recoverable	488,353	357,253
Balance as at September 30	\$ 3,233,699	\$ 2,685,952

The following table shows the components of the movement in the net reduction in ultimate loss and loss adjustment expense liabilities for the three months ended September 30, 2010 and 2009:

	Three Months Ended September 30,	
	2010	2009
Net losses paid	\$ (80,501)	\$ (50,756)
Net change in case and loss adjustment expense (LAE) reserves	101,542	91,540
Net change in incurred but not reported (IBNR) reserves	(151)	3,952
Reduction in estimates of net ultimate losses	20,890	44,736
Reduction in provisions for bad debt	1,304	
Reduction in provisions for unallocated loss and loss adjustment expense liabilities	10,171	9,830
Amortization of fair value adjustments	(6,250)	(12,008)

Net reduction in ultimate loss and loss adjustment expense liabilities	\$ 26,115	\$ 42,558
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Net change in case and LAE reserves comprises the movement during the quarter 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.

The net reduction in ultimate loss and loss adjustment expense liabilities for the three months ended September 30, 2010 of \$26.1 million was attributable to a reduction in estimates of net ultimate losses of \$20.9 million, a reduction in provisions for bad debt of \$1.3 million and a reduction in provisions for unallocated loss and loss adjustment expense liabilities of \$10.2 million, relating to 2010 run-off activity, partially offset by the amortization, over the estimated payout period, of fair value adjustments relating to companies acquired amounting to \$6.3 million.

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ENSTAR GROUP LIMITED

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

7. LOSSES AND LOSS ADJUSTMENT EXPENSES (cont d)

The reduction in estimates of net ultimate losses of \$20.9 million for the three months ended September 30, 2010 comprised net favorable incurred loss development of \$21.1 million and a modest increase in IBNR reserves of \$0.2 million, primarily related to the following:

- (i) A reduction in estimates of net ultimate losses of \$10.8 million in one of the Company's insurance entities following the commutations and policy buy-backs of five of its largest insurance and reinsurance exposures.
- (ii) The Company concluded its review of historic case reserves for two of its insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 1,750 advised case reserves with an aggregate value of \$11.8 million.

The reduction in provisions for bad debt of \$1.3 million resulted from the collection of receivables against which bad debt provisions had been provided in earlier periods.

The net reduction in ultimate loss and loss adjustment expense liabilities for the three months ended September 30, 2009 of \$42.6 million was attributable to a reduction in estimates of net ultimate losses of \$44.7 million and a reduction in provisions for unallocated loss adjustment expense liabilities of \$9.8 million, relating to 2009 run-off activity, partially offset by the amortization, over the estimated payout period, of fair value adjustments of \$12.0 million relating to companies acquired.

The reduction in estimates of net ultimate losses of \$44.7 million during the three months ended September 30, 2009 related to the following:

- (i) A reduction in estimates of net ultimate losses of \$23.8 million in two of the Company's insurance entities whereby previously advised net case and LAE reserves of \$18.6 million were settled without payment. The application of the Company's reserving methodologies to the reduced case and LAE reserves resulted in a reduction in net IBNR reserves of \$5.2 million.
- (ii) The Company concluded its review of historic case reserves for eight of the Company's insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 4,000 advised case reserves with an aggregate value of \$16.6 million.
- (iii) A reduction in estimates of net ultimate losses of \$5.4 million in another of the Company's insurance entities that completed, during September 2009, a Solvent Scheme of Arrangement relating to its U.K. liabilities. A Solvent Scheme of Arrangement is an arrangement between a company and its creditors whereby the company, by making a one-time full and final settlement of its liabilities to policyholders, is able to achieve financial certainty and finality. The entity settled its remaining U.K. net case reserves of \$1.5 million, net IBNR reserves of \$3.1 million and net reinsurance reserves recoverable for the net receipt of \$0.8 million.

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. LOSSES AND LOSS ADJUSTMENT EXPENSES (cont d)**

The table below provides a reconciliation of the beginning and ending reserves for losses and loss adjustment expenses for the nine months ended September 30, 2010 and 2009. Losses incurred and paid are reflected net of reinsurance reserves recoverable.

	Nine Months Ended September 30,	
	2010	2009
Balance as of January 1	\$ 2,479,136	\$ 2,798,287
Less: total reinsurance reserves recoverable	347,728	394,575
	2,131,408	2,403,712
Net reduction in ultimate losses and loss adjustment expense liabilities	(78,077)	(86,630)
Net losses paid	(211,589)	(130,577)
Effect of exchange rate movement	18,410	81,993
Retroactive reinsurance contracts assumed	464,654	48,818
Acquired on purchase of subsidiaries	420,540	11,383
Net balance as at September 30	\$ 2,745,346	\$ 2,328,699
Plus: total reinsurance reserves recoverable	488,353	357,253
Balance as at September 30	\$ 3,233,699	\$ 2,685,952

The following table shows the components of the movement in the net reduction in ultimate loss and loss adjustment expense liabilities for the nine months ended September 30, 2010 and 2009:

	Nine Months Ended September 30,	
	2010	2009
Net losses paid	\$ (211,589)	\$ (130,577)
Net change in case and LAE reserves	234,114	133,742
Net change in IBNR reserves	35,411	89,137
Reduction in estimates of net ultimate losses	57,936	92,302
Reduction in provisions for bad debt	14,411	9,714
Reduction in provisions for unallocated loss and loss adjustment expense liabilities	30,832	29,370

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Amortization of fair value adjustments	(25,102)	(44,756)
Net reduction in ultimate loss and loss adjustment expense liabilities	\$ 78,077	\$ 86,630

The net reduction in ultimate loss and loss adjustment expense liabilities for the nine months ended September 30, 2010 of \$78.1 million was attributable to a reduction in estimates of net ultimate losses of \$57.9 million, a reduction in provisions for bad debt of \$14.4 million and a reduction in provisions for unallocated loss and loss adjustment expense liabilities of \$30.8 million, relating to 2010 run-off activity, partially offset by the amortization, over the estimated payout period, of fair value adjustments relating to companies acquired amounting to \$25.1 million.

The reduction in estimates of net ultimate losses of \$57.9 million comprised net favorable incurred loss development of \$22.5 million along with reductions in IBNR reserves of \$35.4 million. The net favorable incurred loss development of \$22.5 million, whereby net advised case and LAE reserves of \$234.1 million were settled for net losses paid of \$211.6 million, related to the settlement of non-commuted and commuted losses during the nine months ended September 30, 2010 including commutations and policy buy-backs of seven of the largest insured

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ENSTAR GROUP LIMITED

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

7. LOSSES AND LOSS ADJUSTMENT EXPENSES (cont d)

and/or reinsured exposures in three of the Company's insurance and reinsurance subsidiaries. These commutations and policy buy-backs were primarily responsible for the reduction in IBNR reserves of \$35.4 million following the application of the Company's reserving methodologies in determining the IBNR reserves related to the commuted exposures. The settlement of advised case and LAE reserves of \$234.1 million included the redundancy of approximately 1,750 advised case reserves with an aggregate value of \$11.8 million which resulted from the Company's review of historic case reserves for two of its insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years.

The reductions in provisions for bad debt of \$14.4 million resulted from the collection of receivables against which bad debt provisions had been provided in earlier periods.

The net reduction in ultimate loss and loss adjustment expense liabilities for the nine months ended September 30, 2009 of \$86.6 million was attributable to a reduction in estimates of net ultimate losses of \$92.3 million, a reduction in provisions for bad debts of \$9.7 million and a reduction in provisions for unallocated loss and loss adjustment expense liabilities of \$29.4 million, relating to 2009 run-off activity, partially offset by the amortization, over the estimated payout period, of fair value adjustments of \$44.8 million relating to companies acquired.

The reduction in estimates of net ultimate losses of \$92.3 million for the nine months ended September 30, 2009 related primarily to the following:

- (i) A reduction in estimates of net ultimate losses in one of the Company's subsidiaries of \$25.2 million following the commutation of one of its largest ten assumed and ceded exposures at less than case and LAE reserves.
- (ii) A reduction in estimates of net ultimate losses of \$13.0 million in one of the Company's subsidiaries as a result of net favorable incurred loss development of \$2.6 million and reductions in IBNR reserves of \$10.4 million. The net favorable incurred loss development of \$2.6 million, whereby net advised case and LAE reserves of \$6.6 million were settled for net paid losses of \$4.0 million, arose from the settlement of losses during the period below carried reserves. The net reduction in the estimate of the subsidiary's IBNR loss and loss adjustment expense liabilities of \$10.4 million was the result of the application of the Company's reserving methodologies to the reduced case and LAE reserves following the subsidiary's semi-annual actuarial review of reserves, which are required by local regulation.
- (iii) A reduction in estimates of net ultimate losses of \$23.8 million in two of the Company's insurance entities whereby previously advised net case and LAE reserves of \$18.6 million were settled without payment. The application of the Company's reserving methodologies to the reduced case and LAE reserves resulted in a reduction in net IBNR reserves of \$5.2 million.
- (iv) The Company concluded its review of historic case reserves for eight of its insurance and reinsurance subsidiaries for which no updated advices had been received for a number of years. This review confirmed the redundancy of approximately 4,000 advised case reserves with an aggregate value of \$16.6 million.

- (v) A reduction in estimates of net ultimate losses of \$14.1 million in another of the Company's insurance entities that completed, during September 2009, a Solvent Scheme of Arrangement relating to its U.K. liabilities. During the nine months ended September 30, 2009, the entity settled its remaining U.K. net case and LAE reserves of \$8.4 million, net IBNR reserves of \$10.4 million and net reinsurance reserves recoverable for the net payment of \$4.7 million.

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. LOANS PAYABLE**

Amounts of long-term debt outstanding as of September 30, 2010 and December 31, 2009 totaled \$207.2 million and \$255.0 million, respectively, and were comprised of the following:

Facility	Date of Facility	September 30, 2010	December 31, 2009
Cumberland Facility B	March 4, 2008	\$	\$ 67,071
Unionamerica Facility A	December 30, 2008	153,300	155,268
Unionamerica Facility B	December 30, 2008	32,165	32,622
Knapton	April 20, 2010	21,712	
		\$ 207,177	\$ 254,961

In April 2010, Knapton Holdings entered into the Knapton Facility, a term facility agreement with a London-based bank. On April 20, 2010, Knapton Holdings drew down \$21.4 million from the Knapton Facility to partially fund the acquisition of Knapton. The interest rate on the Knapton Facility is LIBOR plus 2.75%. The Knapton Facility is repayable in three years and is secured by a first charge over Knapton Holding's shares in Knapton. The Knapton Facility contains various financial and business covenants, including limitations on mergers and consolidations involving Knapton Holdings and its subsidiaries. As of September 30, 2010, all of the covenants relating to the Knapton Facility were met.

On July 16, 2010, the Company entered into the Enstar Facility, a term facility agreement with a London-based bank. On July 19, 2010, the Company drew down \$25.0 million from the Enstar Facility to fund the acquisition of PWAC. The interest rate on the Enstar Facility was LIBOR plus 2.75%. The Enstar Facility was repayable in three months and was unsecured. The Enstar Facility contained various financial and business undertakings. On September 13, 2010, the Company fully repaid the Enstar Facility.

On September 10, 2010, the Company fully repaid the remaining outstanding principal and accrued interest on Cumberland Facility B of AU\$76.4 million (\$70.8 million). With this repayment, the Company fully repaid the AU\$301 million (\$276.5 million) it borrowed in March 2008 pursuant to the Cumberland term facility agreements, which partially funded the acquisition of its Australian subsidiaries.

The Unionamerica facilities are described in Note 10 to the Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

9. EMPLOYEE BENEFITS

The Company's share-based compensation plans provide for the grant of various awards to the Company's employees and to members of the board of directors. These 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, 2009. The information

below includes both the employee and director components of the Company's share-based compensation.

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. EMPLOYEE BENEFITS (cont d)***(a) Employee share plans*

Employee stock awards for the nine months ended September 30, 2010 are summarized as follows:

		Number of Shares	Weighted Average Fair Value of the Award
Nonvested	January 1, 2010	1,636	\$ 102
Granted		237,238	16,128
Vested		(84,944)	(5,743)
Nonvested	September 30, 2010	153,930	\$ 11,175

(i) 2006-2010 Annual Incentive Plan and 2006 Equity Incentive Plan

For the nine months ended September 30, 2010 and 2009, 78,664 and 64,378 shares were awarded to directors, officers and employees under the 2006 Equity Incentive Plan. The total value of the awards for the nine months ended September 30, 2010 and 2009 was \$5.4 million and \$3.3 million, respectively, and was charged against the 2006-2010 Annual Incentive Plan accrual established for the years ended December 31, 2009 and 2008, respectively.

In addition, for the nine months ended September 30, 2010, 153,930 restricted shares were awarded to certain employees under the 2006 Equity Incentive Plan. The total unrecognized compensation cost related to the non-vested share award as at September 30, 2010 was \$9.4 million. These costs are expected to be recognized evenly over the next 5.2 years. Compensation costs of \$0.4 million and \$1.1 million relating to the share award were recognized in the Company's statement of earnings for the three and nine months ended September 30, 2010, respectively.

The accrued expense relating to the 2006-2010 Annual Incentive Plan for the three and nine months ended September 30, 2010 was \$3.8 million and \$8.8 million, respectively, as compared to \$6.2 million and \$9.8 million for the three and nine months ended September 30, 2009, respectively.

(ii) Enstar Group Limited Employee Share Purchase Plan

Compensation costs of less than \$0.1 million relating to the shares issued have been recognized in the Company's statement of earnings for each of the three and nine months ended September 30, 2010 and 2009. As at September 30, 2010, 12,932 shares have been issued to employees under the Enstar Group Limited Employee Share Purchase Plan.

(b) Options

		Number of Shares	Weighted Average Exercise Price	Intrinsic Value of Shares
Outstanding	January 1, 2010	327,586	\$ 29.49	\$ 14,261
Granted				
Exercised		(106,920)	28.29	(3,741)
Forfeited				
Outstanding	September 30, 2010	220,666	\$ 30.07	\$ 9,385

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. EMPLOYEE BENEFITS (cont d)**

Stock options outstanding and exercisable as of September 30, 2010 were as follows:

Ranges of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
\$10 \$20	112,785	\$ 19.03	0.8 years
\$40 \$60	107,881	41.61	3.0 years

(c) Deferred Compensation and Stock Plan for Non-Employee Directors

For the nine months ended September 30, 2010 and 2009, 4,847 and 5,292 restricted share units, respectively, were credited to the accounts of non-employee directors under the Company's Deferred Compensation and Ordinary Share Plan for Non-Employee Directors.

10. EARNINGS PER SHARE

The following table sets forth the comparison of basic and diluted earnings per share of amounts attributable to the Company's ordinary shareholders for the three and nine month periods ended September 30, 2010 and 2009.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Basic earnings per share:				
Net earnings attributable to Enstar Group Limited	\$ 21,443	\$ 34,987	\$ 49,794	\$ 55,269
Weighted average shares outstanding basic	13,704,832	13,578,555	13,676,113	13,492,044
Earnings per share attributable to Enstar Group Limited basic	\$ 1.56	\$ 2.58	\$ 3.64	\$ 4.10
Diluted earnings per share:				
Net earnings attributable to Enstar Group Limited	\$ 21,443	\$ 34,987	\$ 49,794	\$ 55,269
Weighted average shares outstanding basic	13,704,832	13,578,555	13,676,113	13,492,044
Share equivalents:				

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Unvested Shares	155,616	1,636	116,214	5,896
Restricted share units	17,406	11,070	15,965	8,193
Options	141,914	223,390	148,656	223,254
Weighted average shares outstanding diluted	14,019,768	13,814,651	13,956,948	13,729,387
Earnings per share attributable to Enstar Group Limited diluted	\$ 1.53	\$ 2.53	\$ 3.57	\$ 4.03

11. RELATED PARTY TRANSACTIONS

The Company has entered into certain transactions with companies and partnerships that are affiliated with J. Christopher Flowers and John J. Oros, as set forth below. Mr. Flowers is a member of the Company's board of

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ENSTAR GROUP LIMITED

**NOTES TO THE UNAUDITED CONDENSED
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11. RELATED PARTY TRANSACTIONS (cont d)

directors and is one of the Company's largest shareholders. Mr. Oros served as an executive officer and member of the Company's board of directors until his resignation on August 20, 2010.

- (i) In March 2010, the Company committed to invest \$20.0 million in Varadero International Ltd. (Varadero), a hedge fund. The investment manager of Varadero is Varadero Capital, L.P., of which Varadero GP, LLC is the general partner. Both the investment manager and general partner are partially owned by an entity affiliated with the Company and Messrs. Flowers and Oros.
- (ii) During the nine months ended September 30, 2010, and excluding Varadero, the Company funded \$0.3 million of its remaining outstanding capital commitment to entities affiliated with Messrs. Flowers and Oros. The Company had, as of September 30, 2010 and December 31, 2009, investments in entities affiliated with Messrs. Flowers and Oros (excluding Varadero) with a total value of \$78.5 million and \$76.1 million, respectively, and outstanding commitments to entities affiliated with Mr. Flowers (excluding Varadero), as of those same dates, of \$97.8 million and \$98.1 million, respectively. The Company's outstanding commitments may be drawn down over approximately the next four years.

As at September 30, 2010, the related party investments associated with Messrs. Flowers and Oros accounted for 99.9% of the total unfunded capital commitments of the Company and 49.5% of the total amount of investments classified as other investments by the Company.

On October 1, 2010, the Company entered into share repurchase agreements (the Repurchase Agreements) with three of its executives and certain trusts and a corporation affiliated with the executives to repurchase an aggregate of 800,000 ordinary shares of the Company at a price of \$70.00 per share. The repurchase transactions consisted of repurchases of an aggregate of 600,000 ordinary shares from Dominic F. Silvester (the Company's Chief Executive Officer and Chairman of the Board of Directors) and a trust of which he and his immediate family are the sole beneficiaries, 100,000 ordinary shares from a trust of which Paul J. O Shea (the Company's Joint Chief Operating Officer, Executive Vice President and a member of its Board of Directors) and his immediate family are the sole beneficiaries and 100,000 ordinary shares from a corporation owned by a trust of which Nicholas A. Packer (the Company's Joint Chief Operating Officer and Executive Vice President) and his immediate family are the sole beneficiaries. The repurchase transactions closed on October 14, 2010. The aggregate purchase price of \$56.0 million is payable by the Company through promissory notes to the selling shareholders. The annual interest rate for the notes is fixed at 3.5%, and the notes are repayable in three equal installments on December 31, 2010, December 1, 2011 and December 1, 2012. In connection with the Repurchase Agreements, the Company entered into lock-up agreements with each of Messrs. Silvester, O Shea and Packer, and their respective family trusts and corporation. The lock-up agreements prohibit future sales and transfers of shares now owned or subsequently acquired for two years from the date of the Repurchase Agreements.

12. TAXATION

Under current Bermuda law, the Company and its Bermuda-based subsidiaries are not required to pay any taxes in Bermuda on their income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, the Company and its Bermuda-based subsidiaries will be

exempt from taxation in Bermuda until March 2016.

The Company has operating subsidiaries and branch operations in the United Kingdom, Australia, the United States and Europe and is subject to the relevant taxes in those jurisdictions. The weighted average expected tax provision for the foreign operations has been calculated using pre-tax accounting income in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate.

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. TAXATION (cont d)**

The actual income tax rate for the three and nine months ended September 30, 2010 and 2009, differed from the amount computed by applying the effective rate of 0% under the Bermuda law to earnings before income taxes as a result of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Earnings before income tax	\$ 22,422	\$ 37,647	\$ 72,810	\$ 57,288
Expected tax rate	0 %	0 %	0 %	0 %
Foreign taxes at local expected rates	12.4 %	54.8 %	40.6 %	50.4 %
Benefit of loss carryovers	(4.3)%		(5.4)%	
Change in uncertain tax positions		(0.8)%	0.2 %	(0.8)%
Valuation allowance	(3.5)%	(40.9)%	(3.9)%	(40.1)%
Other	(0.2)%	(6.0)%	0.1 %	(6.0)%
Effective tax rate	4.4 %	7.1 %	31.6 %	3.5 %

The Company had net deferred tax assets of approximately \$26.6 million and \$31.2 million as of September 30, 2010 and December 31, 2009, respectively. Deferred income taxes arise from the recognition of temporary differences between income determined for financial reporting purposes and income tax purposes. The temporary differences that give rise to significant portions of the Company's deferred tax assets are net operating loss carryforwards, claims reserves, principally due to the discounting for tax, and the allowance for doubtful accounts receivable. The Company evaluates its deferred income taxes quarterly to determine if valuation allowances are required. Based on consideration of all available evidence using a more likely than not standard, the Company determined that certain of the valuation allowances that had previously been established were no longer required. This resulted in a reduction of the valuation allowance in the nine month period ended September 30, 2010 of approximately \$2.8 million.

The Company adopted the authoritative guidance related to the financial statement recognition, measurement and disclosure of uncertain tax positions in a company's financial statements on January 1, 2007. The Company has unrecognized tax benefits relating to uncertain tax positions of approximately \$5.6 million and \$5.7 million as of September 30, 2010, and December 31, 2009, respectively.

The Company's operating subsidiaries that are in specific countries may be subject to audit by various tax authorities and may be subject to 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 audits for years before 2005, 2007, and 2003, respectively.

13. SEGMENT INFORMATION

The determination of reportable segments is based on how senior management monitors the Company's operations. The Company measures the results of its operations under two major business categories: reinsurance and consulting.

The Company's consulting segment comprises the operations and financial results of those subsidiaries that provide management and consulting services, forensic claims inspections services and reinsurance collection services to third-party clients, as well as to the Company's reinsurance segment, in return for management fees. The Company provides consulting and management services through its subsidiaries located in the United States, Bermuda and Europe to large multinational company clients with insurance and reinsurance companies and

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. SEGMENT INFORMATION (cont d)**

portfolios in run-off relating to risks spanning the globe. As a result, extracting and quantifying revenues attributable to certain geographic locations would be impracticable given the global nature of the business.

All of the consulting fees for the reinsurance segment relate to intercompany fees paid to the consulting segment.

	Three Months Ended September 30, 2010		
	Reinsurance	Consulting	Total
Consulting fees	\$ (10,831)	\$ 12,950	\$ 2,119
Net investment income	21,012	(847)	20,165
Net realized gains	10,635		10,635
	20,816	12,103	32,919
Net reduction in ultimate loss and loss adjustment expense liabilities:			
Reduction in estimates of net ultimate losses	(20,890)		(20,890)
Reduction in provisions for bad debt	(1,304)		(1,304)
Reduction in provisions for unallocated loss and loss adjustment expense liabilities	(10,171)		(10,171)
Amortization of fair value adjustments	6,250		6,250
	(26,115)		(26,115)
Salaries and benefits	5,378	12,634	18,012
General and administrative expenses	7,578	5,607	13,185
Interest expense	2,961		2,961
Net foreign exchange gain	(356)	(230)	(586)
	(10,554)	18,011	7,457
Earnings (loss) before income taxes and share of net earnings of partly owned company	31,370	(5,908)	25,462
Income taxes	(2,806)	1,827	(979)
Share of net earnings of partly owned company	1,351		1,351
Net earnings (loss)	29,915	(4,081)	25,834
Less: Net earnings attributable to noncontrolling interest	(4,391)		(4,391)
Net earnings (loss) attributable to Enstar Group Limited	\$ 25,524	\$ (4,081)	\$ 21,443

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. SEGMENT INFORMATION (cont d)**

	Three Months Ended September 30, 2009		
	Reinsurance	Consulting	Total
Consulting fees	\$ (8,099)	\$ 12,211	\$ 4,112
Net investment income	22,927	1,713	24,640
Net realized gains	2,912		2,912
	17,740	13,924	31,664
Net reduction in ultimate loss and loss adjustment expense liabilities:			
Reduction in estimates of net ultimate losses	(44,736)		(44,736)
Reduction in provisions for unallocated loss and loss adjustment expense liabilities	(9,830)		(9,830)
Amortization of fair value adjustments	12,008		12,008
	(42,558)		(42,558)
Salaries and benefits	7,577	9,420	16,997
General and administrative expenses	7,795	4,400	12,195
Interest expense	4,262		4,262
Net foreign exchange (gain) loss	(7,253)	89	(7,164)
	(30,177)	13,909	(16,268)
Earnings before income taxes and share of net earnings of partly owned company	47,917	15	47,932
Income taxes	(1,449)	(1,211)	(2,660)
Share of net earnings of partly owned company	196		196
Net earnings (loss)	46,664	(1,196)	45,468
Less: Net earnings attributable to noncontrolling interest	(10,481)		(10,481)
Net earnings (loss) attributable to Enstar Group Limited	\$ 36,183	\$ (1,196)	\$ 34,987

Table of Contents**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. SEGMENT INFORMATION (cont d)**

	Nine Months Ended September 30, 2010		
	Reinsurance	Consulting	Total
Consulting fees	\$ (42,423)	\$ 62,170	\$ 19,747
Net investment income	70,138	(854)	69,284
Net realized gains	8,610		8,610
	36,325	61,316	97,641
Net reduction in ultimate loss and loss adjustment expense liabilities:			
Reduction in estimates of net ultimate losses	(57,936)		(57,936)
Reduction in provisions for bad debt	(14,411)		(14,411)
Reduction in provisions for unallocated loss and loss adjustment expense liabilities	(30,832)		(30,832)
Amortization of fair value adjustments	25,102		25,102
	(78,077)		(78,077)
Salaries and benefits	11,513	35,943	47,456
General and administrative expenses	24,103	15,370	39,473
Interest expense	8,160		8,160
Net foreign exchange loss	965	422	1,387
	(33,336)	51,735	18,399
Earnings before income taxes and share of net earnings of partly owned company	69,661	9,581	79,242
Income taxes	(21,389)	(1,627)	(23,016)
Share of net earnings of partly owned company	10,704		10,704
Net earnings	58,976	7,954	66,930
Less: Net earnings attributable to noncontrolling interest	(17,136)		(17,136)
Net earnings attributable to Enstar Group Limited	\$ 41,840	\$ 7,954	\$ 49,794

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CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. SEGMENT INFORMATION (cont d)**

	Nine Months Ended September 30, 2009		
	Reinsurance	Consulting	Total
Consulting fees	\$ (24,343)	\$ 35,970	\$ 11,627
Net investment income	57,617	2,825	60,442
Net realized gains	1,982		1,982
	35,256	38,795	74,051
Net reduction in ultimate loss and loss adjustment expense liabilities:			
Reduction in estimates of net ultimate losses	(92,302)		(92,302)
Reduction in provisions for bad debt	(9,714)		(9,714)
Reduction in provisions for unallocated loss and loss adjustment expense liabilities	(29,370)		(29,370)
Amortization of fair value adjustments	44,756		44,756
	(86,630)		(86,630)
Salaries and benefits	14,004	27,324	41,328
General and administrative expenses	22,578	12,909	35,487
Interest expense	13,902		13,902
Net foreign exchange gain	(6,892)	(285)	(7,177)
	(43,038)	39,948	(3,090)
Earnings (loss) before income taxes and share of net earnings of partly owned company	78,294	(1,153)	77,141
Income taxes	399	(2,418)	(2,019)
Share of net earnings of partly owned company	465		465
Net earnings (loss)	79,158		