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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

Commission File Number 001-33289



**BERMUDA**

(State or other jurisdiction of incorporation or organization)

**N/A**

(I.R.S. Employer Identification No.)

**Windsor Place, 3rd Floor, 22 Queen Street, Hamilton HM JX, Bermuda**

(Address of principal executive offices, including zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 5, 2017, the registrant had outstanding 16,418,069 voting ordinary shares and 3,004,443 non-voting convertible ordinary shares, each par value \$1.00 per share.

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Enstar Group Limited  
Quarterly Report on Form 10-Q  
For the Period Ended March 31, 2017

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**PART I — FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**ENSTAR GROUP LIMITED**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**As of March 31, 2017 and December 31, 2016**

	March 31, 2017	December 31, 2016
(expressed in thousands of U.S. dollars, except share data)		
<b>ASSETS</b>		
Short-term investments, trading, at fair value	\$ 263,511	\$ 222,918
Short-term investments, available-for-sale, at fair value (amortized cost: 2017 — \$nil; 2016 — \$287)	—	268
Fixed maturities, trading, at fair value	5,585,818	4,388,242
Fixed maturities, available-for-sale, at fair value (amortized cost: 2017 — \$244,199; 2016 — \$269,577)	242,686	267,499
Equities, trading, at fair value	106,337	95,047
Other investments, at fair value	932,155	937,047
Other investments, at cost	133,127	131,651
Total investments	7,263,634	6,042,672
Cash and cash equivalents	921,562	954,871
Restricted cash and cash equivalents	392,413	363,774
Funds held - directly managed	1,209,689	994,665
Premiums receivable	430,023	406,676
Deferred tax assets	12,436	11,374
Prepaid reinsurance premiums	234,107	219,115
Reinsurance balances recoverable	1,450,865	1,460,743
Reinsurance balances recoverable, at fair value	551,253	—
Funds held by reinsured companies	88,326	82,073
Deferred acquisition costs	72,088	58,114
Goodwill and intangible assets	183,685	184,855
Other assets	835,607	842,356
Assets held for sale	1,237,189	1,244,456
<b>TOTAL ASSETS</b>	<b>\$ 14,882,877</b>	<b>\$ 12,865,744</b>
<b>LIABILITIES</b>		
Losses and loss adjustment expenses	\$ 5,835,758	\$ 5,987,867
Losses and loss adjustment expenses, at fair value	1,924,829	—
Policy benefits for life and annuity contracts	111,709	112,095
Unearned premiums	578,951	548,343
Insurance and reinsurance balances payable	430,769	394,021
Deferred tax liabilities	23,265	28,356
Debt obligations	730,845	673,603
Other liabilities	757,357	705,318
Liabilities held for sale	1,142,247	1,150,787
<b>TOTAL LIABILITIES</b>	<b>11,535,730</b>	<b>9,600,390</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>REDEEMABLE NONCONTROLLING INTEREST</b>	<b>473,064</b>	<b>454,522</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital authorized, issued and fully paid, par value \$1 each (authorized 2017 and 2016: 156,000,000):		
Ordinary shares (issued and outstanding 2017: 16,381,083; 2016: 16,175,250)	16,381	16,175
Non-voting convertible ordinary shares:		
Series C (issued and outstanding 2017: 2,599,672; 2016: 2,792,157)	2,600	2,792
Series E (issued and outstanding 2017: 404,771; 2016: 404,771)	405	405
Series C Preferred Shares (issued and outstanding 2017: 388,571; 2016: 388,571)	389	389
Treasury shares at cost (Preferred shares 2017: 388,571; 2016: 388,571)	(421,559)	(421,559)
Additional paid-in capital	1,382,421	1,380,109
Accumulated other comprehensive loss	(21,727)	(23,549)

Retained earnings	1,905,956	1,847,550
Total Enstar Group Limited Shareholders' Equity	2,864,866	2,802,312
Noncontrolling interest	9,217	8,520
TOTAL SHAREHOLDERS' EQUITY	2,874,083	2,810,832
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY	\$ 14,882,877	\$ 12,865,744

See accompanying notes to the unaudited condensed consolidated financial statements

**ENSTAR GROUP LIMITED**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
**For the Three Months Ended March 31, 2017 and 2016**

	Three Months Ended March 31,	
	2017	2016
(expressed in thousands of U.S. dollars, except share and per share data)		
<b>INCOME</b>		
Net premiums earned	\$ 148,898	\$ 192,887
Fees and commission income	11,914	6,424
Net investment income	48,739	50,280
Net realized and unrealized gains	58,519	38,277
Other income	12,198	2,410
	<u>280,268</u>	<u>290,278</u>
<b>EXPENSES</b>		
Net incurred losses and loss adjustment expenses	77,892	83,218
Life and annuity policy benefits	(301)	158
Acquisition costs	20,821	45,029
General and administrative expenses	102,468	92,934
Interest expense	6,868	5,398
Net foreign exchange losses	3,715	1,772
	<u>211,463</u>	<u>228,509</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>68,805</b>	<b>61,769</b>
<b>INCOME TAXES</b>	<b>2,929</b>	<b>(7,369)</b>
<b>NET EARNINGS FROM CONTINUING OPERATIONS</b>	<b>71,734</b>	<b>54,400</b>
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE</b>	<b>371</b>	<b>205</b>
<b>NET EARNINGS</b>	<b>72,105</b>	<b>54,605</b>
Less: Net earnings attributable to noncontrolling interest	(17,425)	(9,085)
<b>NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>	<b>\$ 54,680</b>	<b>\$ 45,520</b>
<b>Earnings per ordinary share attributable to Enstar Group Limited:</b>		
<b>Basic:</b>		
Net earnings from continuing operations	\$ 2.80	\$ 2.34
Net earnings from discontinued operations	0.02	0.02
<b>Net earnings per ordinary share</b>	<b>\$ 2.82</b>	<b>\$ 2.36</b>
<b>Diluted:</b>		
Net earnings from continuing operations	\$ 2.78	\$ 2.33
Net earnings from discontinued operations	0.02	0.02
<b>Net earnings per ordinary share</b>	<b>\$ 2.80</b>	<b>\$ 2.35</b>
<b>Weighted average ordinary shares outstanding:</b>		
Basic	19,374,728	19,282,946
Diluted	19,501,663	19,408,894

See accompanying notes to the unaudited condensed consolidated financial statements

**ENSTAR GROUP LIMITED**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Three Months Ended March 31, 2017 and 2016**

	Three Months Ended March 31,	
	2017	2016
	(expressed in thousands of U.S. dollars)	
NET EARNINGS	\$ 72,105	\$ 54,605
Other comprehensive income, net of tax:		
Unrealized holding gains on fixed income investments arising during the period	686	6,964
Reclassification adjustment for net realized gains included in net earnings	(149)	(22)
Unrealized gains arising during the period, net of reclassification adjustment	537	6,942
Currency translation adjustment	1,942	10,595
Total other comprehensive income	2,479	17,537
Comprehensive income	74,584	72,142
Less comprehensive income attributable to noncontrolling interest	(18,082)	(10,566)
COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED	\$ 56,502	\$ 61,576

See accompanying notes to the unaudited condensed consolidated financial statements

**ENSTAR GROUP LIMITED**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the Three Months Ended March 31, 2017 and 2016**

	Three Months Ended March 31,	
	2017	2016
(expressed in thousands of U.S. dollars)		
<b>Share Capital — Ordinary Shares</b>		
Balance, beginning of period	\$ 16,175	\$ 16,133
Issue of shares	14	30
Conversion of Series C Non-Voting Convertible Ordinary Shares	192	—
Balance, end of period	<u>\$ 16,381</u>	<u>\$ 16,163</u>
<b>Share Capital — Series A Non-Voting Convertible Ordinary Shares</b>		
Balance, beginning and end of period	<u>\$ —</u>	<u>\$ 2,973</u>
<b>Share Capital — Series C Non-Voting Convertible Ordinary Shares</b>		
Balance, beginning of period	\$ 2,792	\$ 2,726
Conversion to Ordinary Shares	(192)	—
Balance, end of period	<u>\$ 2,600</u>	<u>\$ 2,973</u>
<b>Share Capital — Series E Non-Voting Convertible Ordinary Shares</b>		
Balance, beginning and end of period	<u>\$ 405</u>	<u>\$ 405</u>
<b>Share Capital — Series C Convertible Participating Non-Voting Perpetual Preferred Stock</b>		
Balance, beginning and end of period	<u>\$ 389</u>	<u>\$ —</u>
<b>Treasury Shares</b>		
Balance, beginning and end of period	<u>\$ (421,559)</u>	<u>\$ (421,559)</u>
<b>Additional Paid-in Capital</b>		
Balance, beginning of period	\$ 1,380,109	\$ 1,373,044
Issue of shares and warrants	(511)	(79)
Amortization of equity incentive plan	2,823	238
Balance, end of period	<u>\$ 1,382,421</u>	<u>\$ 1,373,203</u>
<b>Accumulated Other Comprehensive Loss</b>		
Balance, beginning of period	\$ (23,549)	\$ (35,162)
Currency translation adjustment		
Balance, beginning of period	(18,993)	(23,790)
Change in currency translation adjustment	1,933	10,595
Balance, end of period	(17,060)	(13,195)
Defined benefit pension liability		
Balance, beginning and end of period	(4,644)	(7,723)
Unrealized gains (losses) on investments		
Balance, beginning of period	88	(3,649)
Change in unrealized gains (losses) on investments	(111)	5,463
Balance, end of period	(23)	1,814
Balance, end of period	<u>\$ (21,727)</u>	<u>\$ (19,104)</u>
<b>Retained Earnings</b>		
Balance, beginning of period	\$ 1,847,550	\$ 1,578,312
Net earnings attributable to Enstar Group Limited	54,680	45,520
Accretion of redeemable noncontrolling interests to redemption value	(1,156)	(875)
Cumulative effect of change in accounting principle	4,882	—
Balance, end of period	<u>\$ 1,905,956</u>	<u>\$ 1,622,957</u>
<b>Noncontrolling Interest (excludes Redeemable Noncontrolling Interest)</b>		
Balance, beginning of period	\$ 8,520	\$ 3,911
Net earnings attributable to noncontrolling interest	697	—
Foreign currency translation adjustments	—	(21)
Balance, end of period	<u>\$ 9,217</u>	<u>\$ 3,890</u>

See accompanying notes to the unaudited condensed consolidated financial statements



**ENSTAR GROUP LIMITED**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Three Months Ended March 31, 2017 and 2016**

	Three Months Ended March 31,	
	2017	2016
	(expressed in thousands of U.S. dollars)	
<b>OPERATING ACTIVITIES:</b>		
Net earnings	\$ 72,105	\$ 54,605
Net earnings from discontinued operations	(371)	(205)
Adjustments to reconcile net earnings to cash flows used in operating activities:		
Net realized (gains) losses on sale of investments	(8,252)	1,411
Net unrealized (gains) on investments	(50,267)	(39,688)
Other non-cash items	1,225	1,053
Depreciation and other amortization	9,302	10,745
Net change in trading securities held on behalf of policyholders	83	(1,093)
Sales and maturities of trading securities	1,076,770	642,180
Purchases of trading securities	(2,275,239)	(711,545)
Changes in:		
Reinsurance balances recoverable	(540,939)	72,067
Funds held by reinsured companies	(221,277)	(1,085,780)
Losses and loss adjustment expenses	1,769,233	916,058
Policy benefits for life and annuity contracts	(1,972)	(2,954)
Insurance and reinsurance balances payable	36,508	11,719
Unearned premiums	30,607	24,682
Other operating assets and liabilities	8,345	(44,550)
Net cash flows used in operating activities	<u>(94,139)</u>	<u>(151,295)</u>
<b>INVESTING ACTIVITIES:</b>		
Sales and maturities of available-for-sale securities	24,724	25,846
Purchase of available-for-sale securities	(7,188)	(3,582)
Purchase of other investments	(38,237)	3,487
Redemption of other investments	69,326	62,838
Other investing activities	(4,981)	(1,219)
Net cash flows provided by investing activities	<u>43,644</u>	<u>87,370</u>
<b>FINANCING ACTIVITIES:</b>		
Receipt of loans	437,100	—
Repayment of loans	(381,000)	(20,500)
Net cash flows provided by (used in) financing activities	<u>56,100</u>	<u>(20,500)</u>
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS	<u>(10,275)</u>	<u>3,939</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,670)	(80,486)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,318,645	1,295,169
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 1,313,975</u>	<u>\$ 1,214,683</u>
<b>Supplemental Cash Flow Information:</b>		
Income taxes paid, net of refunds	\$ 3,917	\$ 10,687
Interest paid	\$ 6,385	\$ 4,534
<b>Reconciliation to Consolidated Balance Sheets:</b>		
Cash and cash equivalents	921,562	718,479
Restricted cash and cash	392,413	496,204
<b>Cash, cash equivalents and restricted cash</b>	<u>\$ 1,313,975</u>	<u>\$ 1,214,683</u>

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2017 and December 31, 2016

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

1. SIGNIFICANT ACCOUNTING POLICIES

*Basis of Preparation and Consolidation*

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

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

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

*Significant New Accounting Policies*

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

ENSTAR GROUP LIMITED

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

*Retroactive Reinsurance - Fair Value Option*

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

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

***New Accounting Standards Adopted in 2017***

*Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting*

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

*ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities*

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

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

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

***Recently Issued Accounting Pronouncements Not Yet Adopted***

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

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

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

ENSTAR GROUP LIMITED

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

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

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

**2. SIGNIFICANT NEW BUSINESS**

*RSA*

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

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

*QBE*

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

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

## ENSTAR GROUP LIMITED

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

**3. HELD-FOR-SALE BUSINESS**

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

Pavonia is a substantial portion of the Life and Annuities segment. We have classified the assets and liabilities of the businesses to be sold as held-for-sale. The following table summarizes the components of assets and liabilities held-for-sale on our consolidated balance sheet as at March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
<b>Assets:</b>		
Fixed maturities, trading, at fair value	\$ 299,451	\$ 326,382
Fixed maturities, held-to-maturity, at amortized cost	761,821	765,554
Equities, trading, at fair value	4,640	4,428
Other investments, at fair value	15,261	15,114
Cash and cash equivalents	26,893	18,018
Restricted cash and cash equivalents	13,027	5,202
Deferred tax assets	31,500	31,500
Reinsurance balances recoverable	17,754	18,029
Other assets	66,842	60,229
<b>Total assets held for sale</b>	<b>\$ 1,237,189</b>	<b>\$ 1,244,456</b>
<b>Liabilities:</b>		
Policy benefits for life and annuity contracts	\$ 1,136,230	\$ 1,144,850
Other liabilities	6,017	5,937
<b>Total liabilities held for sale</b>	<b>\$ 1,142,247</b>	<b>\$ 1,150,787</b>

As of March 31, 2017 and December 31, 2016, included in the table above were restricted investments of \$781.2 million and \$786.0 million, respectively.

The cumulative currency translation adjustment ("CTA") balance in accumulated other comprehensive income (loss), a component of shareholders' equity, included \$(14.4) million and \$(14.8) million as at March 31, 2017 and December 31, 2016, respectively, related to Pavonia. Upon completion of the sale, the CTA will be included in earnings as a reduction of the gain on sale.

## ENSTAR GROUP LIMITED

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

The Pavonia business qualifies as a discontinued operation. The following table summarizes the components of net earnings (losses) from discontinued operations on the consolidated statements of earnings for the three months ended March 31, 2017 and 2016:

	March 31, 2017	March 31, 2016
<b>INCOME</b>		
Net premiums earned	\$ 14,325	\$ 16,522
Net investment income	10,029	9,609
Net realized and unrealized gains (losses)	1,622	(313)
Other income	360	3
	<u>\$ 26,336</u>	<u>\$ 25,821</u>
<b>EXPENSES</b>		
Life and annuity policy benefits	20,670	20,822
Acquisition costs	2,036	2,236
General and administrative expenses	3,057	2,413
Other expenses	(16)	3
	<u>\$ 25,747</u>	<u>\$ 25,474</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>589</b>	<b>347</b>
<b>INCOME TAXES</b>	<b>(218)</b>	<b>\$ (140)</b>
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS</b>	<b><u>371</u></b>	<b><u>207</u></b>

The following table presents the cash flows of Pavonia for the three months ended March 31, 2017, and 2016:

	March 31, 2017	March 31, 2016
Operating activities	\$ 15,463	\$ (10,793)
Investing activities	1,237	11,008
Change in cash of businesses held for sale	<u>\$ 16,700</u>	<u>\$ 215</u>

ENSTAR GROUP LIMITED

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

**4. INVESTMENTS**

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

**Trading**

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

	March 31, 2017	December 31, 2016
U.S. government and agency	\$ 776,216	\$ 840,274
Non-U.S. government	896,757	267,363
Corporate	3,080,120	2,387,322
Municipal	54,830	47,181
Residential mortgage-backed	334,767	373,528
Commercial mortgage-backed	223,567	217,212
Asset-backed	483,072	478,280
Total fixed maturity and short-term investments	5,849,329	4,611,160
Equities — U.S.	106,337	95,047
	<u>\$ 5,955,666</u>	<u>\$ 4,706,207</u>

Included within residential and commercial mortgage-backed securities as at March 31, 2017 were securities issued by U.S. governmental agencies with a fair value of \$268.2 million (as at December 31, 2016: \$362.9 million). Included within corporate securities as at March 31, 2017 were senior secured loans of \$57.1 million (as at December 31, 2016: \$90.7 million).

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

As at March 31, 2017	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	\$ 893,102	\$ 886,878	15.2%
More than one year through two years	734,677	732,586	12.5%
More than two years through five years	1,450,747	1,445,942	24.7%
More than five years through ten years	1,031,378	1,034,548	17.7%
More than ten years	693,101	707,969	12.1%
Residential mortgage-backed	338,576	334,767	5.7%
Commercial mortgage-backed	227,756	223,567	3.8%
Asset-backed	475,082	483,072	8.3%
	<u>\$ 5,844,419</u>	<u>\$ 5,849,329</u>	<u>100.0%</u>

ENSTAR GROUP LIMITED

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

**Available-for-sale**

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

As at March 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Non-OTTI	Fair Value
U.S. government and agency	\$ 11,003	\$ —	\$ (98)	\$ 10,905
Non-U.S. government	83,938	821	(2,165)	82,594
Corporate	138,986	1,861	(1,977)	138,870
Municipal	5,967	16	(11)	5,972
Residential mortgage-backed	467	37	—	504
Asset-backed	3,838	3	—	3,841
	<u>\$ 244,199</u>	<u>\$ 2,738</u>	<u>\$ (4,251)</u>	<u>\$ 242,686</u>

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

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

As at March 31, 2017	Amortized Cost	Fair Value	% of Total Fair Value
One year or less	\$ 50,370	\$ 49,092	20.2%
More than one year through two years	47,021	45,851	18.9%
More than two years through five years	64,942	64,279	26.5%
More than five years through ten years	41,016	42,091	17.3%
More than ten years	36,545	37,028	15.3%
Residential mortgage-backed	467	504	0.2%
Asset-backed	3,838	3,841	1.6%
	<u>\$ 244,199</u>	<u>\$ 242,686</u>	<u>100.0%</u>

**ENSTAR GROUP LIMITED**
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**
**Gross Unrealized Losses**

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

	12 Months or Greater		Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>As at March 31, 2017</b>						
<b>Fixed maturity and short-term investments, at fair value</b>						
U.S. government and agency	\$ —	\$ —	\$ 10,777	\$ (98)	\$ 10,777	\$ (98)
Non-U.S. government	6,230	(1,144)	32,082	(1,021)	38,312	(2,165)
Corporate	6,782	(1,414)	41,181	(563)	47,963	(1,977)
Municipal	—	—	2,603	(11)	2,603	(11)
<b>Total fixed maturity and short-term investments</b>	<b>\$ 13,012</b>	<b>\$ (2,558)</b>	<b>\$ 86,643</b>	<b>\$ (1,693)</b>	<b>\$ 99,655</b>	<b>\$ (4,251)</b>

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

As at March 31, 2017 and December 31, 2016, the number of securities classified as available-for-sale in an unrealized loss position was 140 and 156, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 32 and 41, respectively.

**Other-Than-Temporary Impairment**

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

ENSTAR GROUP LIMITED

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

**Credit Ratings**

The following table sets forth the credit ratings of our fixed maturity and short-term investments as of March 31, 2017:

	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Non-Investment Grade	Not Rated
<b>Fixed maturity and short-term investments, at fair value</b>									
U.S. government and agency	\$ 790,244	\$ 787,121	12.9%	\$ 782,678	\$ 4,443	\$ —	\$ —	\$ —	\$ —
Non-U.S. government	974,929	979,351	16.1%	140,016	748,030	71,630	18,798	—	877
Corporate	3,216,890	3,218,990	52.8%	163,042	474,830	1,683,839	769,272	122,925	5,082
Municipal	60,836	60,802	1.0%	25,856	28,906	4,623	1,417	—	—
Residential mortgage-backed	339,043	335,271	5.5%	284,488	11,122	6,128	279	33,253	1
Commercial mortgage-backed	227,756	223,567	3.7%	89,253	44,067	45,729	28,142	23	16,353
Asset-backed	478,920	486,913	8.0%	200,514	58,461	106,377	42,694	76,729	2,138
Total	6,088,618	6,092,015	100.0%	1,685,847	1,369,859	1,918,326	860,602	232,930	24,451
% of total fair value				27.7%	22.5%	31.5%	14.1%	3.8%	0.4%

**Other Investments, at fair value**

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

	March 31, 2017	December 31, 2016
Private equities and private equity funds	\$ 284,385	\$ 300,529
Fixed income funds	253,499	249,023
Fixed income hedge funds	78,537	85,976
Equity funds	244,488	223,571
CLO equities	56,964	61,565
CLO equity funds	13,350	15,440
Other	932	943
	\$ 932,155	\$ 937,047

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

- *Private equities and private equity funds* invest primarily in the financial services industry. All of our investments in private equities and private equity funds are subject to restrictions on redemptions and sales that are determined by the governing documents and limit our ability to liquidate those investments. These restrictions have been in place since the dates of our initial investments.
- *Fixed income funds* comprise a number of positions in diversified fixed income funds that are managed by third-party managers. Underlying investments vary from high-grade corporate bonds to non-investment grade senior secured loans and bonds, but are generally invested in liquid fixed income markets. These funds have regularly published prices. The funds have liquidity terms that vary from daily up to quarterly.
- *Fixed income hedge funds* invest in a diversified portfolio of debt securities. The hedge funds have imposed lock-up periods of up to three years from the time of initial investment. Once eligible, redemptions are permitted quarterly with 90 days' notice.

ENSTAR GROUP LIMITED

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

- *Equity funds* invest in a diversified portfolio of international publicly traded equity securities. The funds have liquidity terms that vary from daily to every two weeks.
- *CLO equities* comprise investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. CLO equities denote direct investments by us in these securities.
- *CLO equity funds* comprise two funds that invest primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. One of the funds has a fair value of \$2.0 million, part of a self-liquidating structure that is expected to pay out over one to five years. The other fund has a fair value of \$11.4 million and is eligible for redemption in 2018.
- *Other* primarily comprises a fund that provides loans to educational institutions throughout the United States and its territories.

Investments of \$0.5 million in fixed income hedge funds were subject to gates or side-pockets, where redemptions are subject to the sale of underlying investments. A gate is the ability to deny or delay a redemption request, whereas a side-pocket is a designated account for which the investor loses its redemption rights.

As at March 31, 2017, we had unfunded commitments to private equity funds of \$142.6 million.

**Other Investments, at cost**

Our other investments carried at cost of \$133.1 million as of March 31, 2017 consist of life settlement contracts. During the three months ended March 31, 2017 and 2016, net investment income included \$6.9 million and \$8.8 million, respectively, related to investments in life settlements. There were impairment charges of \$0.1 million and \$nil recognized in net realized and unrealized gains/losses during the three months ended March 31, 2017 and 2016, respectively. The following table presents further information regarding our investments in life settlements as of March 31, 2017 and December 31, 2016.

	March 31, 2017			December 31, 2016		
	Number of Contracts	Carrying Value	Face Value (Death Benefits)	Number of Contracts	Carrying Value	Face Value (Death Benefits)
Remaining Life Expectancy of Insureds:						
0 – 1 year	2	\$ 471	\$ 700	2	\$ 461	\$ 700
1 – 2 years	7	11,748	18,206	7	11,396	18,337
2 – 3 years	11	15,802	29,743	11	15,338	29,715
3 – 4 years	16	17,041	31,205	17	17,013	32,189
4 – 5 years	17	17,943	38,302	16	10,377	23,302
Thereafter	172	70,122	407,607	181	77,066	431,034
<b>Total</b>	<b>225</b>	<b>\$ 133,127</b>	<b>\$ 525,763</b>	<b>234</b>	<b>\$ 131,651</b>	<b>\$ 535,277</b>

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

At March 31, 2017, our best estimate of the life insurance premiums required to keep the policies in force, payable in the 12 months ending March 31, 2018 and the four succeeding years ending March 31, 2022 is \$17.5 million, \$17.4 million, \$17.6 million, \$16.0 million and \$15.2 million, respectively.

## ENSTAR GROUP LIMITED

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

**Net Realized and Unrealized Gains**

Components of net realized and unrealized gains for the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31,	
	2017	2016
Net realized gains (losses) on sale:		
Gross realized gains on fixed maturity securities, available-for-sale	\$ 160	\$ 265
Gross realized losses on fixed maturity securities, available-for-sale	(11)	(243)
Net realized losses on fixed maturity securities, trading	(1,052)	(1,906)
Net realized gains on equity securities, trading	574	473
Net realized gains on other investments	12,434	—
Net realized investment losses on funds held - directly managed	(3,853)	—
Total net realized gains (losses) on sale	\$ 8,252	\$ (1,411)
Net unrealized gains:		
Fixed maturity securities, trading	\$ 23,316	\$ 43,196
Equity securities, trading	8,686	1,724
Other investments	11,075	(5,232)
Change in fair value of embedded derivative on funds held - directly managed	6,928	—
Change in value of fair value option on funds held - directly managed	262	—
Total net unrealized gains	50,267	39,688
Net realized and unrealized gains	\$ 58,519	\$ 38,277

The gross realized gains and losses on available-for-sale securities included in the table above resulted from sales of \$24.7 million and \$15.4 million for the three months ended March 31, 2017 and 2016, respectively.

**Net Investment Income**

Major categories of net investment income for the three months ended March 31, 2017 and 2016 are summarized as follows:

	Three Months Ended March 31,	
	2017	2016
Fixed maturity investments	\$ 30,330	\$ 27,198
Short-term investments and cash and cash equivalents	2,640	1,158
Equity securities	726	1,060
Other investments	3,509	6,034
Funds held	39	7,604
Funds held - directly managed	7,002	—
Life settlements and other	6,896	8,443
Gross investment income	51,142	51,497
Investment expenses	(2,403)	(1,217)
Net investment income	\$ 48,739	\$ 50,280

## ENSTAR GROUP LIMITED

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

**Restricted Assets**

We are required to maintain investments and cash and cash equivalents on deposit to support our insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. We also utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trusts as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted assets, including restricted cash of \$392.4 million and \$363.8 million, as of March 31, 2017 and December 31, 2016, respectively, was as follows:

	March 31, 2017	December 31, 2016
Collateral in trust for third party agreements	\$ 3,260,539	\$ 1,975,022
Assets on deposit with regulatory authorities	795,290	882,400
Collateral for secured letter of credit facilities	175,069	177,263
Funds at Lloyd's <sup>(1)</sup>	220,216	220,328
	<u>\$ 4,451,114</u>	<u>\$ 3,255,013</u>

<sup>(1)</sup>Our underwriting businesses include three Lloyd's syndicates. Lloyd's determines the required capital principally through the annual business plan of each syndicate. This capital is referred to as "Funds at Lloyd's" and will be drawn upon in the event that a syndicate has a loss that cannot be funded from other sources. We have an unsecured letter of credit agreement for Funds at Lloyd's purposes ("FAL Facility") to issue up to \$140.0 million of letters of credit, with a provision to increase the facility up to \$200.0 million. The FAL Facility is available to satisfy our Funds at Lloyd's requirements and expires in 2021. As at March 31, 2017, our combined Funds at Lloyd's were comprised of cash and investments of \$220.2 million and unsecured letters of credit of \$122.0 million.

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

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

5. FUNDS HELD - DIRECTLY MANAGED

Funds held - directly managed is comprised of the following:

- The funds held balance in relation to the Allianz transaction, described in Note 2 - "Significant New Business" in our consolidated financial statements in Form 10-K for the year ended December 31, 2016, moved from a fixed crediting rate to a variable rate of return on the underlying investments on October 1, 2016. This variable return reflects the economics of the investment portfolio underlying the funds held asset and qualifies as an embedded derivative. We have recorded the aggregate of the funds held, typically held at cost, and the embedded derivative as a single amount in our consolidated balance sheet. As at March 31, 2017 and December 31, 2016, the funds held at cost had a carrying value of \$1,054.3 million and \$1,023.0 million, respectively, and the embedded derivative had a fair value of \$(21.4) million and \$(28.3) million, respectively, the aggregate of which was \$1,032.9 million and \$994.7 million, respectively, as included in the table below.
- The fair value option was elected for the QBE reinsurance transaction described in Note 2 - "Significant New Business". As at March 31, 2017, the funds held had an amortized cost of \$176.5 million and fair value of \$176.8 million.

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

	March 31, 2017	December 31, 2016
Fixed maturity investments:		
U.S. government and agency	\$ 34,187	\$ 47,885
Non-U.S. government	6,059	5,961
Corporate	786,315	663,556
Municipal	54,019	38,927
Commercial mortgage-backed	174,748	151,395
Asset-backed	96,207	79,806
Total fixed maturity investments	\$ 1,151,535	\$ 987,530
Other assets	58,154	7,135
	<u>\$ 1,209,689</u>	<u>\$ 994,665</u>

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

As at March 31, 2017	Amortized Cost	Fair Value	% of Total Fair Value
More than one year through two years	\$ 34,050	\$ 34,058	3.0%
More than two years through five years	314,843	313,321	27.2%
More than five years through ten years	277,009	271,393	23.5%
More than ten years	269,532	261,808	22.7%
Commercial mortgage-backed	181,047	174,748	15.2%
Asset-backed	96,184	96,207	8.4%
	<u>\$ 1,172,665</u>	<u>\$ 1,151,535</u>	<u>100.0%</u>

ENSTAR GROUP LIMITED

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

**Credit Ratings**

The following table sets forth the credit ratings of our fixed maturity investments underlying the funds held - directly managed account as of March 31, 2017.

	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated
U.S. government and agency	\$ 34,198	\$ 34,187	3.0%	\$ 34,187	\$ —	\$ —	\$ —
Non-U.S. government	6,019	6,059	0.5%	—	—	2,948	3,111
Corporate	799,530	786,315	68.2%	7,199	63,529	312,830	402,757
Municipal	55,687	54,019	4.7%	—	17,861	28,960	7,198
Commercial mortgage-backed	181,047	174,748	15.2%	169,738	3,007	2,003	—
Asset-backed	96,184	96,207	8.4%	92,523	3,684	—	—
<b>Total</b>	<b>\$ 1,172,665</b>	<b>\$ 1,151,535</b>	<b>100.0%</b>	<b>\$ 303,647</b>	<b>\$ 88,081</b>	<b>\$ 346,741</b>	<b>\$ 413,066</b>
% of total fair value				26.4%	7.6%	30.1%	35.9%

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

Net realized gains and change in fair value for the three months ended March 31, 2017 are summarized as follows:

	2017
Net realized losses on fixed maturity securities	\$ (3,853)
Change in fair value of embedded derivative	6,928
Change in value of fair value option on funds held - directly managed	262
Net realized gains (losses) and change in fair value of funds held - directly managed	<u>\$ 3,337</u>

There were no funds held - directly managed as at March 31, 2016.

**Net Investment Income**

Major categories of net investment income underlying the funds held - directly managed for the three months ended March 31, 2017 are summarized as follows:

	2017
Fixed maturity investments	\$ 7,485
Short-term investments and cash and cash equivalents	65
Gross investment income	7,550
Investment expenses	(548)
Investment income on funds held - directly managed	<u>\$ 7,002</u>

**6. FAIR VALUE MEASUREMENTS**

**Fair Value Hierarchy**

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

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest

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

rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

- Level 3 - Valuations based on unobservable inputs where there is little or no market activity. Unadjusted third party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

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

	March 31, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value	
<b>Investments:</b>					
U.S. government and agency	\$ —	\$ 787,121	\$ —	\$ 787,121	
Non-U.S. government	—	979,351	—	979,351	
Corporate	—	3,162,811	56,179	3,218,990	
Municipal	—	60,802	—	60,802	
Residential mortgage-backed	—	335,271	—	335,271	
Commercial mortgage-backed	—	198,715	24,852	223,567	
Asset-backed	—	457,831	29,082	486,913	
Equities — U.S.	102,192	4,145	—	106,337	
Other investments	—	375,650	69,627	445,277	
Total investments	\$ 102,192	\$ 6,361,697	\$ 179,740	\$ 6,643,629	
<b>Funds Held - Directly Managed:</b>					
U.S. government and agency	\$ —	\$ 34,187	\$ —	\$ 34,187	
Non-U.S. government	—	6,059	—	6,059	
Corporate	—	786,315	—	786,315	
Municipal	—	54,019	—	54,019	
Commercial mortgage-backed	—	174,748	—	174,748	
Asset-backed	—	96,207	—	96,207	
Other funds held assets	—	58,154	—	58,154	
	\$ —	\$ 1,209,689	\$ —	\$ 1,209,689	
<b>Reinsurance recoverable:</b>					
Reinsurance recoverable	\$ —	\$ —	\$ 551,253	\$ 551,253	
	\$ —	\$ —	\$ 551,253	\$ 551,253	
<b>Other Assets:</b>					
Derivative Instruments	\$ —	\$ 54	\$ —	\$ 54	
	\$ —	\$ 54	\$ —	\$ 54	
<b>Losses and LAE:</b>					
Losses and LAE	\$ —	\$ —	\$ 1,924,829	\$ 1,924,829	
	\$ —	\$ —	\$ 1,924,829	\$ 1,924,829	
<b>Other Liabilities:</b>					
Derivative Instruments	\$ —	\$ 965	\$ —	\$ 965	
	\$ —	\$ 965	\$ —	\$ 965	

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ENSTAR GROUP LIMITED

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

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

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

<b>Other investments:</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Other investments measured at fair value	\$ 445,277	\$ 434,316
Other investments measured at NAV as practical expedient	486,878	502,731
<b>Total other investments shown on balance sheets</b>	<b>\$ 932,155</b>	<b>\$ 937,047</b>

**Valuation Methodologies of Financial Instruments Measured at Fair Value***Fixed Maturity Investments*

The fair values for all securities in the fixed maturity investments and funds held - directly managed portfolios are independently provided by the investment accounting service providers, investment managers and investment custodians, each of which utilize internationally recognized independent pricing services. We record the unadjusted price provided by the investment accounting service providers, investment managers or investment custodians and validate this price through a process that includes, but is not limited to: (i) comparison of prices against alternative pricing sources; (ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark); (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and (iv) comparing the price to our knowledge of the current investment market. Our internal price validation procedures and review of fair value methodology documentation provided by independent pricing services have not historically resulted in adjustment in the prices obtained from the pricing service.

The independent pricing services used by the investment accounting service providers, investment managers and investment custodians obtain actual transaction prices for securities that have quoted prices in active markets. Where we utilize single unadjusted broker-dealer quotes, they are generally provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation models, using observable data, such as an Option Adjusted Spread model, to develop prepayment and interest rate scenarios. The Option Adjusted Spread model is commonly used to estimate fair value for securities such as mortgage-backed and asset-backed securities.

The following describes the techniques generally used to determine the fair value of our fixed maturity investments by asset class, including the investments underlying the funds held - directly managed.

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

market observable. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

*Equities*

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

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

*Other investments, at fair value*

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

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

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

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

In providing valuations, the CLO equity manager and brokers use observable and unobservable inputs. Of the significant unobservable market inputs used, the default and loss severity rates involve the most judgment and create the most sensitivity. A significant increase or decrease in either of these significant inputs in isolation would result in lower or higher fair value estimates for direct investments in CLO equities and, in general, a change in default rate assumptions will be accompanied by a directionally similar change in loss severity rate assumptions. Collateral spreads and estimated maturity dates are less subjective inputs because they are based on the historical average of actual spreads and the weighted-average life of the current underlying portfolios, respectively. A significant increase or decrease in either of these significant inputs in isolation would

result in higher or lower fair value estimates for direct investments in CLO equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

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

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

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

*Insurance Contracts - Fair Value Option*

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

**Level 3 Measurements and Changes in Leveling**

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

*Investments*

During the three months ended March 31, 2017, we transferred \$1.6 million of corporate securities, \$13.9 million of commercial mortgage-backed securities and \$17.6 million of asset-backed securities from Level 2 to Level 3. These securities were transferred from Level 2 to Level 3 due to insufficient market observable inputs for the valuation of the specific assets. During the three months ended March 31, 2017, we transferred \$10.6 million of corporate securities, \$1.2 million of commercial mortgage-backed securities and \$4.6 million of asset-backed securities from Level 3 to Level 2. The transfers from Level 3 to Level 2 were based upon us obtaining market observable information regarding the valuations of the specific assets. There were no transfers between Levels 1 and 2.

ENSTAR GROUP LIMITED

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

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31, 2017				Three Months Ended March 31, 2016			
	Fixed Maturity Investments	Other Investments	Equity Securities	Total	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Beginning fair value	\$ 101,439	\$ 76,878	\$ —	\$ 178,317	\$ 147,144	\$ 77,016	\$ —	\$ 224,160
Purchases	10,270	—	—	10,270	—	6,221	—	6,221
Sales	(18,900)	—	—	(18,900)	(17,336)	(4,658)	—	(21,994)
Net realized and unrealized gains	635	(7,251)	—	(6,616)	(5,592)	(4,290)	—	(9,882)
Net transfers into (out of) Level 3	16,669	—	—	16,669	(41,604)	—	—	(41,604)
Ending fair value	\$ 110,113	\$ 69,627	\$ —	\$ 179,740	\$ 82,612	\$ 74,289	\$ —	\$ 156,901

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

*Insurance Contracts - Fair Value Option*

The following table presents a reconciliation of the beginning and ending balances for all insurance contracts measured at fair value on a recurring basis using Level 3 inputs during the three months ended March 31, 2017:

	Three Months Ended March 31, 2017	
	Liability for losses and LAE	Reinsurance recoverable
Beginning fair value	\$ —	\$ —
Assumed business	1,966,843	565,824
Changes in nominal amounts:		
Net incurred losses and LAE	(6,238)	—
Paid losses	(60,367)	(17,006)
Changes in fair value:		
Discounted cash flows	20,035	2,466
Risk margin	(4,489)	(1,070)
Effect of exchange rate movement	9,045	1,039
Ending fair value	\$ 1,924,829	\$ 551,253

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

Below is a summary of the quantitative information regarding the significant observable and unobservable inputs used in the internal model to determine fair value on a recurring basis as at March 31, 2017 and as at the acquisition dates during the three month period ended March 31, 2017:

March 31, 2017		
Valuation Technique	Unobservable (U) and Observable (O) Inputs	Weighted Average
Internal model	Corporate bond yield (O)	A rated
Internal model	Credit spread for non-performance risk (U)	0.2%
Internal model	Risk cost of capital (U)	5.0%
Internal model	Weighted average cost of capital (U)	8.5%
Internal model	Duration - liability (U)	11.25 years
Internal model	Duration - reinsurance recoverable (U)	12.16 years

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

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

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

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

***Disclosure of Fair Values for Financial Instruments Carried at Cost***

As of March 31, 2017 and December 31, 2016, investments in life settlement contracts were carried at cost of \$133.1 million and \$131.7 million, respectively, and their fair values were \$130.8 million and \$129.5 million, respectively.

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

As of March 31, 2017, our Senior Notes were carried at amortized cost of \$347.1 million while the fair value based on observable market pricing from a third party pricing service was \$355.0 million. The fair value is classified as Level 2.

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

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

7. DERIVATIVE INSTRUMENTS

*Foreign Currency Hedging of Net Investments*

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

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

	Gross Notional Amount	March 31, 2017 Fair Value		Amount of Gains (Losses) Deferred in AOCI (Effective Portion)
		Assets	Liabilities	Three Months Ended March 31, 2017
Foreign exchange forward - AUD	\$ 61,168	\$ —	\$ 519	\$ (444)
Foreign exchange forward - CAD	27,813	7	61	552
Total qualifying hedges	\$ 88,981	\$ 7	\$ 580	\$ 108

  

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

We did not have any forward currency contract hedges of our net investments in foreign operations during the three months ended March 31, 2016.

We also borrowed €75.0 million (approximately \$80.2 million) during 2016 that was designated as a non-derivative hedge of our net investment in certain subsidiaries whose functional currency is denominated in Euros as described in Note 13 - "Debt Obligations".

*Derivatives Not Designated or Not Qualifying as Hedging Instruments*

From time to time, we may also utilize foreign currency forward contracts as part of our overall foreign currency risk management strategy or to obtain exposure to a particular financial market, as well as for yield enhancement, which are not designated or do not qualify as hedging instruments.

*Foreign Currency Forward Contracts*

The following table presents the gross notional amounts, estimated fair values recorded within other assets and liabilities and the amounts included in net earnings related to our non-qualifying foreign currency forward exchange rate hedging relationships as at March 31, 2017.

	Gross Notional Amount	March 31, 2017 Fair Value		Losses on non-qualifying hedges charged to earnings
		Assets	Liabilities	Three Months Ended March 31, 2017
Foreign exchange forward - GBP	\$ 21,321	\$ 18	\$ 148	\$ (148)
Foreign exchange forward - EUR	18,185	29	237	(237)
Total qualifying hedges	\$ 39,506	\$ 47	\$ 385	\$ (385)

ENSTAR GROUP LIMITED

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

There were no such contracts utilized during the three months ended March 31, 2016 and as at December 31, 2016.

*Investments in Call Options on Equities*

We use equity call option instruments either to obtain exposure to a particular equity instrument or for yield enhancement in non-qualifying hedging relationships, although we did not use any equity derivative instruments during the three months ended March 31, 2017.

During the three months ended March 31, 2016, we purchased call options on equities at a cost of \$5.5 million and recorded unrealized gains in net earnings of \$0.6 million.

**8. REINSURANCE BALANCES RECOVERABLE**

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

	March 31, 2017				
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total
Recoverable from reinsurers on unpaid:					
Outstanding losses	\$ 998,611	\$ 6,006	\$ 163,930	\$ 237	\$ 1,168,784
IBNR	664,905	22,893	199,377	—	887,175
Fair value adjustments	(6,160)	1,726	(2,812)	—	(7,246)
Fair value adjustments - fair value option	(152,985)	—	—	—	(152,985)
Total reinsurance reserves recoverable	1,504,371	30,625	360,495	237	1,895,728
Paid losses recoverable	86,623	951	18,660	156	106,390
	<u>\$ 1,590,994</u>	<u>\$ 31,576</u>	<u>\$ 379,155</u>	<u>\$ 393</u>	<u>\$ 2,002,118</u>
Reconciliation to Consolidated Balance Sheet:					
Reinsurance balances recoverable	\$ 1,039,741	\$ 31,576	\$ 379,155	\$ 393	\$ 1,450,865
Reinsurance balances recoverable - fair value option	551,253	—	—	—	551,253
Total	<u>\$ 1,590,994</u>	<u>\$ 31,576</u>	<u>\$ 379,155</u>	<u>\$ 393</u>	<u>\$ 2,002,118</u>

	December 31, 2016				
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total
Recoverable from reinsurers on unpaid:					
Outstanding losses	\$ 621,288	\$ 6,438	\$ 182,478	\$ 190	\$ 810,394
IBNR	393,550	21,753	178,259	—	593,562
Fair value adjustments	(13,885)	1,818	(3,506)	—	(15,573)
Fair value adjustments - fair value option	—	—	—	—	—
Total reinsurance reserves recoverable	1,000,953	30,009	357,231	190	1,388,383
Paid losses recoverable	47,160	(1,081)	25,512	769	72,360
	<u>\$ 1,048,113</u>	<u>\$ 28,928</u>	<u>\$ 382,743</u>	<u>\$ 959</u>	<u>\$ 1,460,743</u>
Reconciliation to Consolidated Balance Sheet:					
Reinsurance balances recoverable	\$ 1,048,113	\$ 28,928	\$ 382,743	\$ 959	\$ 1,460,743
Reinsurance balances recoverable - fair value option	—	—	—	—	—
Total	<u>\$ 1,048,113</u>	<u>\$ 28,928</u>	<u>\$ 382,743</u>	<u>\$ 959</u>	<u>\$ 1,460,743</u>

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

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

The fair value adjustments, determined on acquisition of insurance and reinsurance subsidiaries, are based on the estimated timing of loss and LAE recoveries and an assumed interest rate equivalent to a risk free rate for securities with similar duration to the acquired reinsurance recoverables plus a spread for credit risk, and are amortized over the estimated recovery period, as adjusted for accelerations in timing of payments as a result of commutation settlements. The determination of the fair value adjustments on the retroactive reinsurance contracts for which we have elected the fair value option is described in Note 6 - "Fair Value Measurements".

As of March 31, 2017 and December 31, 2016, we had reinsurance balances recoverable of approximately \$2.0 billion and \$1.5 billion, respectively. The increase of \$541.4 million in reinsurance balances recoverable was primarily a result of the QBE and RSA reinsurance transactions, which closed in the quarter, offset by reserve reductions in our Non-life Run-off segment and cash collections made during the three months ended March 31, 2017.

**Top Ten Reinsurers**

	March 31, 2017						December 31, 2016					
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total	% of Total	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total	% of Total
Top ten reinsurers	\$ 1,238,737	\$ 19,429	\$ 217,846	\$ —	\$ 1,476,012	73.7%	\$ 737,074	\$ 23,245	\$ 226,283	\$ —	\$ 986,602	67.6%
Other reinsurers > \$1 million	340,138	11,460	156,839	—	508,437	25.4%	301,856	4,827	152,341	—	459,024	31.4%
Other reinsurers < \$1 million	12,119	687	4,470	393	17,669	0.9%	9,183	856	4,119	959	15,117	1.0%
<b>Total</b>	<b>\$ 1,590,994</b>	<b>\$ 31,576</b>	<b>\$ 379,155</b>	<b>\$ 393</b>	<b>\$ 2,002,118</b>	<b>100.0%</b>	<b>\$ 1,048,113</b>	<b>\$ 28,928</b>	<b>\$ 382,743</b>	<b>\$ 959</b>	<b>\$ 1,460,743</b>	<b>100.0%</b>
Reconciliation to Consolidated Balance Sheet:												
Reinsurance balances recoverable	\$ 1,039,741	\$ 31,576	\$ 379,155	\$ 393	\$ 1,450,865		\$ 1,048,113	\$ 28,928	\$ 382,743	\$ 959	\$ 1,460,743	
Reinsurance balances recoverable - fair value option	551,253	—	—	—	551,253		—	—	—	—	—	
<b>Total</b>	<b>\$ 1,590,994</b>	<b>\$ 31,576</b>	<b>\$ 379,155</b>	<b>\$ 393</b>	<b>\$ 2,002,118</b>		<b>\$ 1,048,113</b>	<b>\$ 28,928</b>	<b>\$ 382,743</b>	<b>\$ 959</b>	<b>\$ 1,460,743</b>	

Five of the top ten external reinsurers, as at March 31, 2017 and December 31, 2016, were rated A- or better, with the remaining five being non-rated reinsurers from which \$622.5 million was recoverable (December 31, 2016: \$512.2 million recoverable from four reinsurers). For the five non-rated reinsurers, including KaylaRe Ltd., we hold security in the form of pledged assets in trust or letters of credit issued to us in the full amount of the recoverable. As at March 31, 2017, reinsurance balances recoverable of \$264.0 million (December 31, 2016: \$241.7 million) related to KaylaRe Ltd., \$214.0 million (December 31, 2016: \$154.9 million) related to Lloyd's syndicates and \$323.8 million (December 31, 2016: \$67.3 million) related to Hannover Ruck SE, all of which represented 10% or more of total reinsurance balances recoverable. Lloyd's is rated A+ by Standard & Poor's and A by A.M. Best, and Hannover Ruck SE is rated AA- by Standard & Poor's and A+ by A.M. Best.

**Provisions for Uncollectible Reinsurance Recoverables**

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

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

	March 31, 2017				December 31, 2016			
	Gross	Provisions for Bad Debt	Net	Provisions as a % of Gross	Gross	Provisions for Bad Debt	Net	Provisions as a % of Gross
Reinsurers rated A- or above	\$ 1,310,533	\$ 38,704	\$ 1,271,829	3.0%	\$ 892,776	\$ 35,184	\$ 857,592	3.9%
Reinsurers rated below A-, secured	673,898	—	673,898	—%	544,894	—	544,894	—%
Reinsurers rated below A-, unsecured	191,222	134,831	56,391	70.5%	197,589	139,332	58,257	70.5%
<b>Total</b>	<b>\$ 2,175,653</b>	<b>\$ 173,535</b>	<b>\$ 2,002,118</b>	<b>8.0%</b>	<b>\$ 1,635,259</b>	<b>\$ 174,516</b>	<b>\$ 1,460,743</b>	<b>10.7%</b>

## ENSTAR GROUP LIMITED

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

**9. LOSSES AND LOSS ADJUSTMENT EXPENSES**

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

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

	March 31, 2017				December 31, 2016			
	Non-life Run-off	Atrium	StarStone	Total	Non-life Run-off	Atrium	StarStone	Total
Outstanding losses	\$ 3,461,547	\$ 67,748	\$ 484,217	\$ 4,013,512	\$ 2,697,737	\$ 67,379	\$ 502,115	\$ 3,267,231
IBNR	3,482,775	132,329	586,789	4,201,893	2,153,994	132,240	558,130	2,844,364
Fair value adjustments	(126,404)	12,046	(692)	(115,050)	(135,368)	12,503	(863)	(123,728)
Fair value adjustments - fair value option	(339,768)	—	—	(339,768)	—	—	—	—
<b>Total</b>	<b>\$ 6,478,150</b>	<b>\$ 212,123</b>	<b>\$ 1,070,314</b>	<b>\$ 7,760,587</b>	<b>\$ 4,716,363</b>	<b>\$ 212,122</b>	<b>\$ 1,059,382</b>	<b>\$ 5,987,867</b>
Reconciliation to Consolidated Balance Sheet:								
Loss and loss adjustment expenses				\$ 5,835,758				
Loss and loss adjustment expenses, at fair value				1,924,829				
Total				\$ 7,760,587				

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

ENSTAR GROUP LIMITED

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

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
Balance as at beginning of period	\$ 5,987,867	\$ 5,720,149
Less: reinsurance reserves recoverable	1,388,193	1,360,382
Less: deferred charges on retroactive reinsurance	94,551	255,911
Net balance as at beginning of period	4,505,123	4,103,856
Net incurred losses and LAE:		
Current period	85,545	115,301
Prior periods	(7,653)	(32,083)
Total net incurred losses and LAE	77,892	83,218
Net paid losses:		
Current period	(8,719)	(5,334)
Prior periods	(249,722)	(186,403)
Total net paid losses	(258,441)	(191,737)
Effect of exchange rate movement	14,505	4,881
Acquired on purchase of subsidiaries	—	—
Assumed business	1,432,412	1,084,251
Net balance as at March 31	5,771,491	5,084,469
Plus: reinsurance reserves recoverable	1,895,491	1,302,738
Plus: deferred charges on retroactive reinsurance	93,605	254,300
Balance as at March 31	\$ 7,760,587	\$ 6,641,507

The tables below provide the net incurred losses and LAE in the Non-life Run-off, Atrium and StarStone segments for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31, 2017				Three Months Ended March 31, 2016			
	Non-life Run-off	Atrium	StarStone	Total	Non-life Run-off	Atrium	StarStone	Total
Net losses paid	\$ 156,572	\$ 13,673	\$ 88,196	\$ 258,441	\$ 132,313	\$ 7,748	\$ 51,676	\$ 191,737
Net change in case and LAE reserves	(83,134)	594	(9,359)	(91,899)	(108,785)	(1,772)	12,655	(97,902)
Net change in IBNR reserves	(78,647)	(1,804)	(10,152)	(90,603)	(37,063)	9,891	27,086	(86)
Amortization of deferred charges	946	—	—	946	1,611	—	—	1,611
Increase (reduction) in estimates of net ultimate losses	(4,263)	12,463	68,685	76,885	(11,924)	15,867	91,417	95,360
Reduction in provisions for bad debt	—	—	—	—	(1,448)	—	—	(1,448)
Increase (reduction) in provisions for unallocated LAE	(14,323)	(8)	(1)	(14,332)	(7,788)	84	1,011	(6,693)
Amortization of fair value adjustments	1,347	33	(523)	857	(2,394)	(362)	(1,245)	(4,001)
Changes in fair value - fair value option	14,482	—	—	14,482	—	—	—	—
Net incurred losses and LAE	\$ (2,757)	\$ 12,488	\$ 68,161	\$ 77,892	\$ (23,554)	\$ 15,589	\$ 91,183	\$ 83,218

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ENSTAR GROUP LIMITED

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

**Non-Life Run-off Segment**

The table below provides a reconciliation of the beginning and ending reserves for losses and LAE for the three months ended March 31, 2017 and 2016 for the Non-life Run-off segment:

	Three Months Ended March 31,	
	2017	2016
Balance as at beginning of period	\$ 4,716,363	\$ 4,585,454
Less: reinsurance reserves recoverable	1,000,953	1,034,747
Less: deferred charges on retroactive insurance	94,551	255,911
Net balance as at beginning of period	3,620,859	3,294,796
Net incurred losses and LAE:		
Current period	714	6,069
Prior periods	(3,471)	(29,623)
Total net incurred losses and LAE	(2,757)	(23,554)
Net paid losses:		
Current period	(241)	(1,990)
Prior periods	(156,331)	(130,323)
Total net paid losses	(156,572)	(132,313)
Effect of exchange rate movement	17,625	4,640
Assumed business	1,401,019	1,084,251
Net balance as at March 31	4,880,174	4,227,820
Plus: reinsurance reserves recoverable	1,504,371	977,096
Plus: deferred charges on retroactive reinsurance	93,605	254,300
Balance as at March 31	\$ 6,478,150	\$ 5,459,216

Net incurred losses and LAE in the Non-life Run-off segment for the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31,					
	2017			2016		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	\$ 156,331	\$ 241	\$ 156,572	\$ 130,323	\$ 1,990	\$ 132,313
Net change in case and LAE reserves	(83,134)	—	(83,134)	(108,969)	184	(108,785)
Net change in IBNR reserves	(79,078)	431	(78,647)	(40,513)	3,450	(37,063)
Amortization of deferred charges	946	—	946	1,611	—	1,611
Increase (reduction) in estimates of net ultimate losses	(4,935)	672	(4,263)	(17,548)	5,624	(11,924)
Increase (reduction) in provisions for bad debt	—	—	—	(1,448)	—	(1,448)
Increase (reduction) in provisions for unallocated LAE	(14,365)	42	(14,323)	(8,233)	445	(7,788)
Amortization of fair value adjustments	1,347	—	1,347	(2,394)	—	(2,394)
Changes in fair value - fair value option	14,482	—	14,482	—	—	—
Net incurred losses and LAE	\$ (3,471)	\$ 714	\$ (2,757)	\$ (29,623)	\$ 6,069	\$ (23,554)

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

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

*Three Months Ended March 31, 2017*

The reduction in net incurred losses and LAE for the three months ended March 31, 2017 of \$2.8 million included net incurred losses and LAE of \$0.7 million related to current period net earned premium, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of \$0.7 million, net incurred losses and LAE liabilities relating to prior periods were reduced by \$3.5 million, which was attributable to a reduction in estimates of net ultimate losses of \$4.9 million, a reduction in provisions for unallocated LAE of \$14.4 million, relating to 2017 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to \$1.3 million and an increase in fair value of \$14.5 million related to our assumed retroactive reinsurance agreements with RSA and QBE completed during the quarter and for which we have elected the fair value option. The reduction in estimates of net ultimate losses for the three months ended March 31, 2017 included a net change in case and IBNR reserves of \$162.2 million. The reduction of estimates in net ultimate losses for the three months ended March 31, 2017 was reduced by amortization of the deferred charge of \$0.9 million.

*Three Months Ended March 31, 2016*

The reduction in net incurred losses and LAE for the three months ended March 31, 2016 of \$23.6 million included net incurred losses and LAE of \$6.1 million related to current period net earned premium of \$5.6 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of \$6.1 million, net incurred losses and LAE liabilities relating to prior periods were reduced by \$29.6 million, which was attributable to a reduction in estimates of net ultimate losses of \$17.5 million, a reduction in provisions for bad debt of \$1.4 million, and a reduction in provisions for unallocated LAE of \$8.2 million, and amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to \$2.4 million, relating to 2016 run-off activity. The reduction in estimates of net ultimate losses for the three months ended March 31, 2016 included a net change in case and IBNR reserves of \$145.8 million. The reduction of estimates in net ultimate losses for the three months ended March 31, 2016 was reduced by amortization of the deferred charge of \$1.6 million. The reduction in provisions for bad debt of \$1.4 million was a result of the collection of certain reinsurance recoverables against which bad debt provisions had been provided in earlier periods.

ENSTAR GROUP LIMITED

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

**Atrium**

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
Balance as at beginning of period	\$ 212,122	\$ 201,017
Less: reinsurance reserves recoverable	30,009	25,852
Net balance as at beginning of period	182,113	175,165
Net incurred losses and LAE:		
Current period	14,421	16,062
Prior periods	(1,933)	(473)
Total net incurred losses and LAE	12,488	15,589
Net paid losses:		
Current period	(4,262)	(2,238)
Prior periods	(9,411)	(5,510)
Total net paid losses	(13,673)	(7,748)
Effect of exchange rate movement	570	664
Net balance as at March 31	181,498	183,670
Plus: reinsurance reserves recoverable	30,625	26,249
Balance as at March 31	\$ 212,123	\$ 209,919

Net incurred losses and LAE in the Atrium segment for the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31,					
	2017			2016		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	\$ 9,411	\$ 4,262	\$ 13,673	\$ 5,510	\$ 2,238	\$ 7,748
Net change in case and LAE reserves	(3,116)	3,710	594	(3,960)	2,188	(1,772)
Net change in IBNR reserves	(8,137)	6,333	(1,804)	(1,591)	11,482	9,891
Increase (reduction) in estimates of net ultimate losses	(1,842)	14,305	12,463	(41)	15,908	15,867
Increase (reduction) in provisions for unallocated LAE	(124)	116	(8)	(70)	154	84
Amortization of fair value adjustments	33	—	33	(362)	—	(362)
Net incurred losses and LAE	\$ (1,933)	\$ 14,421	\$ 12,488	\$ (473)	\$ 16,062	\$ 15,589

ENSTAR GROUP LIMITED

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

**StarStone**

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
Balance as at beginning of period	\$ 1,059,382	\$ 933,678
Less: reinsurance reserves recoverable	357,231	299,783
Net balance as at beginning of period	702,151	633,895
Net incurred losses and LAE:		
Current period	70,410	93,170
Prior periods	(2,249)	(1,987)
Total net incurred losses and LAE	68,161	91,183
Net paid losses:		
Current period	(4,216)	(1,106)
Prior periods	(83,980)	(50,570)
Total net paid losses	(88,196)	(51,676)
Effect of exchange rate movement	(3,690)	(423)
Assumed business	31,393	—
Net balance as at March 31	709,819	672,979
Plus: reinsurance reserves recoverable	360,495	299,393
Balance as at March 31	\$ 1,070,314	\$ 972,372

Net incurred losses and LAE in the StarStone segment for the three months ended March 31, 2017 and 2016 were as follows:

	Three Months Ended March 31,					
	2017			2016		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	\$ 83,980	\$ 4,216	\$ 88,196	\$ 50,570	\$ 1,106	\$ 51,676
Net change in case and LAE reserves	(24,843)	15,484	(9,359)	4,636	8,019	12,655
Net change in IBNR reserves	(58,937)	48,785	(10,152)	(54,913)	81,999	27,086
Increase (reduction) in estimates of net ultimate losses	200	68,485	68,685	293	91,124	91,417
Increase (reduction) in provisions for unallocated LAE	(1,926)	1,925	(1)	(1,035)	2,046	1,011
Amortization of fair value adjustments	(523)	—	(523)	(1,245)	—	(1,245)
Net incurred losses and LAE	\$ (2,249)	\$ 70,410	\$ 68,161	\$ (1,987)	\$ 93,170	\$ 91,183

**10. POLICY BENEFITS FOR LIFE AND ANNUITY CONTRACTS**

Policy benefits for life contracts as at March 31, 2017 and December 31, 2016 were \$111.7 million and \$112.1 million, respectively. The annuity amounts presented in previous financial statements are now classified as held-for-sale liabilities. Refer to Note 2 - "Significant Accounting Policies - (d) Policy Benefits for Life and Annuity Contracts" of the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 for a description of the assumptions used and the process for establishing our assumptions and estimates.

**11. PREMIUMS WRITTEN AND EARNED**

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

The following table provides a summary of net premiums written and earned in our Non-life Run-off, Atrium, StarStone and Life and Annuities segments for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,			
	2017		2016	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
<i>Non-life Run-off</i>				
Gross	\$ 983	\$ 1,298	\$ 6,697	\$ 7,947
Ceded	(902)	(1,222)	(1,426)	(2,512)
Net	\$ 81	\$ 76	\$ 5,271	\$ 5,435
<i>Atrium</i>				
Gross	\$ 46,413	\$ 36,220	\$ 41,518	\$ 35,434
Ceded	(4,494)	(4,000)	(3,338)	(3,523)
Net	\$ 41,919	\$ 32,220	\$ 38,180	\$ 31,911
<i>StarStone</i>				
Gross	\$ 226,536	\$ 205,584	\$ 217,043	\$ 194,116
Ceded	(107,670)	(90,176)	(66,907)	(40,034)
Net	\$ 118,866	\$ 115,408	\$ 150,136	\$ 154,082
<i>Life and Annuities</i>				
Life	\$ 1,193	\$ 1,194	\$ 1,441	\$ 1,459
Total	\$ 162,059	\$ 148,898	\$ 195,028	\$ 192,887

ENSTAR GROUP LIMITED

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

**12. GOODWILL, INTANGIBLE ASSETS AND DEFERRED CHARGE**

The following table presents a reconciliation of the beginning and ending goodwill, intangible assets and the deferred charge during the three months ended March 31, 2017:

	Goodwill	Intangible assets with a definite life - Other	Intangible assets with an indefinite life	Total	Intangible assets with a definite life - FVA	Other assets - Deferred Charges
Balance as at December 31, 2016	\$ 73,071	\$ 24,753	\$ 87,031	\$ 184,855	\$ 145,158	\$ 94,551
Acquired during the period	—	—	—	—	—	—
Amortization	—	(1,170)	—	(1,170)	(343)	(946)
Balance as at March 31, 2017	\$ 73,071	\$ 23,583	\$ 87,031	\$ 183,685	\$ 144,815	\$ 93,605

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

Intangible asset amortization for the three months ended March 31, 2017 and 2016 was \$1.5 million and \$0.1 million, respectively.

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

	March 31, 2017			December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets with a definite life:						
Fair value adjustments:						
Losses and LAE liabilities	\$ 458,202	\$ (343,152)	\$ 115,050	\$ 458,202	\$ (334,475)	\$ 123,727
Reinsurance balances recoverable	(175,924)	168,678	(7,246)	(175,924)	160,350	(15,574)
Other Assets	(48,840)	110	(48,730)	(48,840)	—	(48,840)
Other Liabilities	85,845	(104)	85,741	85,845	—	85,845
Total	\$ 319,283	\$ (174,468)	\$ 144,815	\$ 319,283	\$ (174,125)	\$ 145,158
Other:						
Distribution channel	\$ 20,000	\$ (4,444)	\$ 15,556	\$ 20,000	\$ (4,111)	\$ 15,889
Technology	15,000	(11,640)	3,360	15,000	(10,978)	4,022
Brand	7,000	(2,333)	4,667	7,000	(2,158)	4,842
Total	\$ 42,000	\$ (18,417)	\$ 23,583	\$ 42,000	\$ (17,247)	\$ 24,753
Intangible assets with an indefinite life:						
Lloyd's syndicate capacity	\$ 37,031	\$ —	\$ 37,031	\$ 37,031	\$ —	\$ 37,031
Licenses	19,900	—	19,900	19,900	—	19,900
Management contract	30,100	—	30,100	30,100	—	30,100
Total	\$ 87,031	\$ —	\$ 87,031	\$ 87,031	\$ —	\$ 87,031
Deferred charges on retroactive reinsurance	\$ 278,643	\$ (185,038)	\$ 93,605	\$ 278,643	\$ (184,092)	\$ 94,551

## ENSTAR GROUP LIMITED

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

**13. DEBT OBLIGATIONS**

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

Facility	Origination Date	Term	March 31, 2017	December 31, 2016
EGL Revolving Credit Facility	September 16, 2014	5 years	\$ 245,228	\$ 535,103
Sussex Facility	December 24, 2014	4 years	63,500	63,500
EGL Term Loan Facility	November 18, 2016	3 years	75,000	75,000
Senior Notes	March 10, 2017	5 years	350,000	—
Less: Unamortized debt issuance costs			(2,883)	—
Total Senior Notes			347,117	—
Total debt obligations			\$ 730,845	\$ 673,603

For the three months ended March 31, 2017 and 2016, interest expense was \$6.3 million and \$5.4 million, respectively, on our debt obligations.

***EGL Revolving Credit Facility***

This 5-year revolving credit facility, originated on September 16, 2014, and most recently amended on March 20, 2017, is among Enstar Group Limited and certain of its subsidiaries, as borrowers and as guarantors, and various financial institutions. We are permitted to borrow up to an aggregate of \$831.3 million. As of March 31, 2017, there was \$586.1 million of available unutilized capacity under this facility. We are in compliance with the covenants of the EGL Revolving Credit Facility. Subsequent to March 31, 2017, we utilized \$20.0 million and repaid \$15.0 million, bringing unutilized capacity under this facility to \$581.1 million.

As of March 31, 2017 and December 31, 2016, there was a €75.0 million loan (approximately \$80.2 million) under the facility that was designated as a non-derivative hedge of our net investment in certain subsidiaries whose functional currency is denominated in Euros. The foreign exchange effect of revaluing these Euro borrowings resulted in a loss of \$1.1 million recognized in the currency translation adjustment within accumulated other comprehensive income (loss) for the three months ended March 31, 2017. These amounts were offset against equivalent amounts recognized upon the translation of those subsidiaries' financial statements from functional currency into U.S. dollars. There were no ineffective portions of the net investment hedge during the three months ended March 31, 2017, which would have required reclassification from accumulated other comprehensive income (loss) into earnings. The non-derivative hedge was not in place for the three months ended March 31, 2016.

***Sussex Facility***

On December 24, 2014, we entered into a 4-year term loan (the "Sussex Facility") with two financial institutions. This facility was fully utilized to initially borrow \$109.0 million to fund 50% of the consideration payable for the acquisition of Sussex, which was completed on January 27, 2015. For the three months ended March 31, 2017 and 2016, we repaid nil and \$20.5 million, respectively, of the outstanding principal under this facility. We are in compliance with the covenants of the Sussex Facility.

***EGL Term Loan Facility***

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

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

***Senior Notes***

On March 10, 2017, we issued Senior Notes for an aggregate principal amount of \$350.0 million. The Senior Notes pay 4.5% interest semi-annually and mature on March 10, 2022. The Senior Notes are unsecured and unsubordinated obligations that rank equally to any of our other unsecured and unsubordinated obligations, senior to any future obligations that are expressly subordinated to the Senior Notes, effectively subordinate to any of our secured

## ENSTAR GROUP LIMITED

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

indebtedness to the extent of the value of the assets securing such indebtedness, and structurally subordinate to all liabilities of our subsidiaries.

The Senior Notes are rated BBB- and have an optional redemption on a make whole basis at any time prior to the date that is one month prior to the maturity for the Notes, at a redemption price equal to the greater of (i) 100% of the principal amount of the Notes being redeemed and (ii) the sum of the present value of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption), discounted to their present value as of such date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 40 basis points. On or after the date that is one month prior to the maturity of the Notes, the Notes are redeemable at a redemption price equal to 100% of the principal amount of the notes to be redeemed.

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

**14. NONCONTROLLING INTERESTS*****Redeemable Noncontrolling Interest***

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

	Three Months Ended March 31, 2017	Year Ended December 31, 2016
Balance at beginning of period	\$ 454,522	\$ 417,663
Net earnings attributable to RNCI	16,729	40,639
Accumulated other comprehensive earnings attributable to RNCI	657	651
Change in redemption value of RNCI	1,156	(4,431)
Balance at end of period	\$ 473,064	\$ 454,522

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

***Noncontrolling Interest***

As of March 31, 2017 and December 31, 2016, we had \$9.2 million and \$8.5 million, respectively, of noncontrolling interest ("NCI") primarily related to an external interest in one of our non-life run-off subsidiaries.

**15. SHARE CAPITAL**

During the three months ended March 31, 2017, there were 192,485 Series C Non-Voting Ordinary Shares converted into Voting Ordinary Shares in a widely dispersed offering by their registered holders.

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

## ENSTAR GROUP LIMITED

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

**16. EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
	2017	2016
<b>Numerator:</b>		
Net earnings from continuing operations	\$ 54,309	\$ 45,315
Net earnings from discontinued operations	371	205
Net earnings attributable to Enstar Group Limited	54,680	45,520
<b>Denominator:</b>		
Weighted average ordinary shares outstanding — basic	19,374,728	19,282,946
Effect of dilutive securities:		
Share-based compensation plans	55,656	38,518
Warrants	71,279	87,430
Weighted average ordinary shares outstanding — diluted	19,501,663	19,408,894
<b>Earnings per share attributable to Enstar Group Limited:</b>		
Basic:		
Net earnings from continuing operations	\$ 2.80	\$ 2.34
Net earnings from discontinued operations	\$ 0.02	\$ 0.02
Net earnings per ordinary share	\$ 2.82	\$ 2.36
Diluted:		
Net earnings from continuing operations	\$ 2.78	\$ 2.33
Net earnings from discontinued operations	\$ 0.02	\$ 0.02
Net earnings per ordinary share	\$ 2.80	\$ 2.35

**17. SHARE-BASED COMPENSATION AND PENSIONS**

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

Share-based compensation expense for the three months ended March 31, 2017 and 2016 was \$3.8 million and \$8.2 million, respectively.

Employee share purchase plan expense for the three months ended March 31, 2017 and 2016 was less than \$0.1 million for both periods.

Pension expense for the three months ended March 31, 2017 and 2016 was \$2.3 million and \$3.1 million, respectively.

## 18. TAXATION

### *Interim Tax Calculation Method*

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

### *Interim Tax Expense (Benefit)*

The effective tax rates on income for the three months ended March 31, 2017 and 2016 were (4.3)% and 11.9%, respectively. The effective tax rate on income differs from the statutory rate of 0% due to tax on foreign operations, primarily the United States and the United Kingdom. We have foreign operating subsidiaries and branch operations principally located in the United States, United Kingdom, Continental Europe and Australia that are subject to federal, foreign, state and local taxes in those jurisdictions. Deferred income tax liabilities have not been accrued with respect to the undistributed earnings of our foreign subsidiaries. If the earnings were to be distributed, as dividends or other distributions, withholding taxes may be imposed by the jurisdiction of the paying subsidiary. For our U.S. subsidiaries, we have not currently accrued any withholding taxes with respect to un-remitted earnings as management has no current intention of remitting these earnings. For our United Kingdom subsidiaries, there are no withholding taxes imposed. For our other foreign subsidiaries, it would not be practicable to compute such amounts due to a variety of factors, including the amount, timing, and manner of any repatriation. Because we operate in many jurisdictions, our net earnings are subject to risk due to changing tax laws and tax rates around the world. The current, rapidly changing economic environment may increase the likelihood of substantial changes to tax laws in the jurisdictions in which we operate.

### *Assessment of Valuation Allowance on Deferred Tax Assets*

We have estimated the future taxable income of our foreign subsidiaries and have provided a valuation allowance in respect of loss carryforwards where we do not expect to realize a benefit. We have considered all available evidence using a "more likely than not" standard in determining the amount of the valuation allowance. During the three months ended March 31, 2017, we had no change in our assessment of our valuation allowance on deferred tax assets.

### *Accounting for Uncertainty in Income Taxes*

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

### *Tax Examinations*

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

**19. RELATED PARTY TRANSACTIONS*****Stone Point Capital LLC***

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

In addition, we have entered into certain agreements with Trident with respect to Trident's co-investments in the Atrium, Arden, and StarStone acquisitions. These include investors' agreements and shareholders' agreements, which provide for, among other things: (i) our right to redeem Trident's equity interest in the Atrium/Arden and StarStone transactions in cash at fair market value within the 90 days following the fifth anniversary of the Arden and StarStone closings, respectively, and at any time following the seventh anniversary of the Arden and StarStone closings, respectively; and (ii) Trident's right to have its equity co-investment interests in the Atrium/Arden and StarStone transactions redeemed by us at fair market value (which we may satisfy in either cash or our ordinary shares) following the seventh anniversaries of the Arden closing and StarStone closing, respectively. As of March 31, 2017, we have included \$453.4 million (December 31, 2016: \$435.6 million) as RNCI on our balance sheet relating to these Trident co-investment transactions. Pursuant to the terms of the shareholders' agreements, Mr. Carey serves as a Trident representative on the boards of the holding companies established in connection with the Atrium/Arden and StarStone co-investment transactions. Trident also has a second representative on these boards who is a Stone Point employee.

As at March 31, 2017, we had investments in funds (carried within other investments) and a registered investment company affiliated with entities owned by Trident or otherwise affiliated with Stone Point. The fair value of the investments in the funds was \$240.5 million and \$232.1 million as of March 31, 2017 and December 31, 2016, respectively. The fair value of our investment in the registered investment company was \$26.6 million and \$20.9 million as at March 31, 2017 and December 31, 2016, respectively. For the three months ended March 31, 2017 and 2016, we recognized net realized and unrealized gains of \$7.0 million and \$0.2 million, respectively, in respect of the fund investments and net unrealized gains of \$5.2 million and net unrealized losses of \$0.1 million, respectively, in respect of the registered investment company investment. For the three months ended March 31, 2017 and 2016, we recognized interest income of \$0.5 million and \$0.5 million in respect of the registered investment company.

We also have separate accounts, with a balance of \$219.6 million and \$215.0 million as at March 31, 2017 and December 31, 2016, respectively, managed by Eagle Point Credit Management and PRIMA Capital Advisors, which are affiliates of entities owned by Trident, with respect to which we incurred approximately \$0.1 million and \$0.1 million in management fees for the three months ended March 31, 2017 and 2016, respectively.

In addition, we are invested in funds (carried within other investments) managed by Sound Point Capital, an entity in which Mr. Carey has an indirect minority ownership interest and serves as a director. The fair value of our investments in Sound Point Capital funds was \$25.7 million and \$25.4 million as of March 31, 2017 and December 31, 2016, respectively. For the three months ended March 31, 2017 and 2016, we have recognized net unrealized gains of \$0.4 million and net unrealized losses of \$0.4 million, respectively, in respect of investments managed by Sound Point Capital.

Sound Point Capital has acted as collateral manager for certain of our direct investments in CLO equity securities. The fair value of these investments was \$18.1 million and \$20.3 million as at March 31, 2017 and December 31, 2016, respectively. For the three months ended March 31, 2017 and 2016, we recognized net unrealized losses of \$2.1 million and \$0.9 million, respectively. For the three months ended March 31, 2017 and 2016, we recognized interest income of \$1.2 million and \$2.1 million, respectively, in respect of these investments.

We have a separate account managed by Sound Point Capital, with a balance of \$61.6 million and \$61.2 million as at March 31, 2017 and December 31, 2016, respectively, with respect to which we incurred approximately \$0.1 million and \$0.1 million in management fees for the three months ended March 31, 2017 and 2016, respectively.

***CPPIB***

Canada Pension Plan Investment Board ("CPPIB"), together with management of Wilton Re, owns 100% of the common stock of Wilton Re. Subsequent to the closing of our transaction with Wilton Re, on June 3, 2015, CPPIB

## ENSTAR GROUP LIMITED

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

purchased voting and non-voting shares in Enstar from FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII-A Parallel Vehicle L.P. and FR Torus Co-Investment, L.P. These shares constitute an approximately 9.1% voting interest and an approximately 9.8% aggregate economic interest in Enstar. On September 29, 2015, CPPIB exercised its acquired right to appoint a representative to our Board of Directors. During November 2016, CPPIB acquired additional non-voting shares in Enstar from Goldman Sachs in a private transaction. Following this transaction, CPPIB's shares constitute an approximate 9.1% voting interest and an approximate 16% aggregate economic interest in Enstar.

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

We also have a pre-existing reinsurance recoverable based on normal commercial terms from a company later acquired by Wilton Re, which was carried on our balance sheet at \$9.3 million as of March 31, 2017.

**KaylaRe**

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

We recorded the investment in KaylaRe using the equity method basis of accounting, pursuant to the conclusion that we are not required to consolidate following an analysis based on the guidance in ASC 810 - Consolidation. Our investment in the common shares and warrants of KaylaRe was carried at \$300.6 million and \$294.6 million in other assets on our consolidated balance sheet as at March 31, 2017 and December 31, 2016, respectively.

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

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

Through a Quota Share Agreement dated December 15, 2016 (the "KaylaRe-StarStone QS"), several of our StarStone affiliates have entered into a Quota Share Treaty with KaylaRe Ltd. pursuant to which KaylaRe Ltd. reinsures 35% of all business written by these StarStone affiliates for risks attaching from January 1, 2016, net of the StarStone affiliates' external reinsurance programs. During the three months ended March 31, 2017, StarStone ceded \$56.0 million of premium earned, \$33.7 million of net incurred losses and LAE and \$21.9 million of acquisition costs to KaylaRe Ltd. under the KaylaRe-StarStone QS. Our Non-life Run-off subsidiaries did not cede any net incurred losses to KaylaRe Ltd. during the three months ended March 31, 2017.

Our consolidated balance sheets as at March 31, 2017 and December 31, 2016 include the following balances related to transactions between us and KaylaRe and KaylaRe Ltd.: reinsurance recoverable of \$264.0 million (2016: \$242.1 million), prepaid reinsurance premiums of \$104.6 million (2016: \$109.0 million), funds held of \$182.3 million (2016: \$182.3 million) recorded in other liabilities, insurance and reinsurance balances payable of \$158.3 million (2016: \$132.6 million), and ceded acquisition costs of \$34.0 million (2016: \$41.2 million) recorded as a reduction of deferred acquisition costs.

ENSTAR GROUP LIMITED

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

**Hillhouse**

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

As of March 31, 2017 and December 31, 2016, our equity method investee, KaylaRe, had investments in a fund managed by Hillhouse with a fair value of \$361.0 million and \$350.0 million, respectively.

## 20. COMMITMENTS AND CONTINGENCIES

### *Concentrations of Credit Risk*

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

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

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

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

We limit the amount of credit exposure to any one counterparty, and none of our counterparty credit exposures, excluding U.S. Government instruments and the funds held counterparty noted above, exceeded 10% of shareholders' equity as of March 31, 2017.

### *Legal Proceedings*

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

### *Unfunded Investment Commitments*

As at March 31, 2017, we had unfunded commitments to investment funds of \$142.6 million.

### *Guarantees*

As at March 31, 2017 and December 31, 2016, parental guarantees supporting subsidiaries' insurance obligations were \$612.6 million and \$625.7 million, respectively.

### *Asbestos Personal Injury Liabilities*

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

ENSTAR GROUP LIMITED

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

2016. Dana continues to process asbestos personal injury claims in the normal course of business and is separately managed.

Other liabilities included \$217.1 million and \$220.5 million for indemnity and defense costs for pending and future claims at March 31, 2017 and December 31, 2016, respectively, determined using standard actuarial techniques for asbestos-related exposures. Other liabilities also included \$2.2 million and \$2.3 million for environmental liabilities associated with Dana properties at March 31, 2017 and December 31, 2016, respectively.

Other assets included \$130.9 million and \$133.0 million at March 31, 2017 and December 31, 2016, respectively, for estimated insurance recoveries relating to these liabilities. The recorded asset represents our assessment of the capacity of the insurance agreements to provide for the payment of anticipated defense and indemnity costs for pending claims and projected future demands. The recognition of these recoveries is based on an assessment of the right to recover under the respective contracts and on the financial strength of the insurers. The recorded asset does not represent the limits of our insurance coverage, but rather the amount we would expect to recover if the accrued indemnity and defense costs were paid in full.

***Redeemable Noncontrolling Interest***

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

## ENSTAR GROUP LIMITED

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

**21. SEGMENT INFORMATION**

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

The following tables set forth selected and condensed consolidated statement of earnings results by segment for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31, 2017					
	Non-life Run-off	Atrium	StarStone	Life and Annuities	Eliminations	Consolidated
<b>INCOME</b>						
Net premiums earned	\$ 76	\$ 32,220	\$ 115,408	\$ 1,194	\$ —	\$ 148,898
Fees and commission income	8,723	3,372	1,166	—	(1,347)	11,914
Net investment income	35,729	1,124	5,449	7,334	(897)	48,739
Net realized and unrealized gains (losses)	51,558	418	6,699	(156)	—	58,519
Other income	11,928	69	46	155	—	12,198
	<u>108,014</u>	<u>37,203</u>	<u>128,768</u>	<u>8,527</u>	<u>(2,244)</u>	<u>280,268</u>
<b>EXPENSES</b>						
Net incurred losses and LAE	(2,757)	12,488	68,161	—	—	77,892
Life and annuity policy benefits	—	—	—	(301)	—	(301)
Acquisition costs	400	10,772	10,614	431	(1,396)	20,821
General and administrative expenses	59,705	7,211	34,021	1,482	49	102,468
Interest expense	6,681	271	622	191	(897)	6,868
Net foreign exchange losses	785	832	1,893	205	—	3,715
	<u>64,814</u>	<u>31,574</u>	<u>115,311</u>	<u>2,008</u>	<u>(2,244)</u>	<u>211,463</u>
EARNINGS BEFORE INCOME TAXES	43,200	5,629	13,457	6,519	—	68,805
INCOME TAXES	(960)	(356)	4,249	(4)	—	2,929
NET EARNINGS FROM CONTINUING OPERATIONS	42,240	5,273	17,706	6,515	—	71,734
NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE	—	—	—	371	—	371
Less: Net earnings attributable to noncontrolling interest	(8,009)	(2,163)	(7,253)	—	—	(17,425)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	<u>\$ 34,231</u>	<u>\$ 3,110</u>	<u>\$ 10,453</u>	<u>\$ 6,886</u>	<u>\$ —</u>	<u>\$ 54,680</u>

ENSTAR GROUP LIMITED

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

Three Months Ended March 31, 2016

	Non-life Run-off	Atrium	StarStone	Life and Annuities	Eliminations	Consolidated
<b>INCOME</b>						
Net premiums earned	\$ 5,435	\$ 31,911	\$ 154,082	\$ 1,459	\$ —	\$ 192,887
Fees and commission income	6,566	3,832	—	—	(3,974)	6,424
Net investment income	36,230	554	5,280	8,638	(422)	50,280
Net realized and unrealized gains	23,390	40	14,349	498	—	38,277
Other income	1,800	34	11	565	—	2,410
	<u>73,421</u>	<u>36,371</u>	<u>173,722</u>	<u>11,160</u>	<u>(4,396)</u>	<u>290,278</u>
<b>EXPENSES</b>						
Net incurred losses and LAE	(23,554)	15,589	91,183	—	—	83,218
Life and annuity policy benefits	—	—	—	158	—	158
Acquisition costs	1,982	11,087	32,060	166	(266)	45,029
General and administrative expenses	58,113	6,408	30,155	1,971	(3,713)	92,934
Interest expense	5,480	—	—	335	(417)	5,398
Net foreign exchange losses (gains)	880	1,815	(1,299)	376	—	1,772
	<u>42,901</u>	<u>34,899</u>	<u>152,099</u>	<u>3,006</u>	<u>(4,396)</u>	<u>228,509</u>
EARNINGS BEFORE INCOME TAXES	30,520	1,472	21,623	8,154	—	61,769
INCOME TAXES	(4,673)	(678)	(2,018)	—	—	(7,369)
NET EARNINGS FROM CONTINUING OPERATIONS	25,847	794	19,605	8,154	—	54,400
NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE	—	—	—	205	—	205
Less: Net earnings attributable to noncontrolling interest	(715)	(326)	(8,044)	—	—	(9,085)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	<u>\$ 25,132</u>	<u>\$ 468</u>	<u>\$ 11,561</u>	<u>\$ 8,359</u>	<u>\$ —</u>	<u>\$ 45,520</u>

**Assets by Segment**

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

	March 31, 2017	December 31, 2016
Total assets:		
Non-life Run-off	\$ 10,320,251	\$ 8,297,103
Atrium	590,921	563,754
StarStone	3,039,624	2,968,316
Life and annuities	1,643,235	1,644,013
Less:		
Eliminations	(711,154)	(607,442)
	<u>\$ 14,882,877</u>	<u>\$ 12,865,744</u>

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

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

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## **Business Overview**

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

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

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

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

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

### ***Key Performance Indicator***

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

During the three months ended March 31, 2017, we increased our book value per share on a fully diluted basis by 2.0% to \$146.62 per share. The increase was primarily due to net earnings attributable to Enstar Group Limited of \$54.7 million.

### ***Current Outlook***

Our business strategy includes generating growth through acquisitions and reinsurance transactions, particularly in our Non-life Run-off segment, and during the three months ended March 31, 2017 we completed two significant loss portfolio transfer reinsurance transactions with RSA and QBE in our Non-life Run-off segment. The net insurance reserves of \$1.2 billion assumed in the RSA transaction reflected the impact of the recent updates to the Ogden rates, which are a discount rate used to determine lump sum compensation payments to injured claimants in the U.K.

Our industry continues to experience challenging market conditions in underwriting and investing. We continue to see overcapacity in many markets for insurable risks, resulting in continued pressure on premium rates and terms and conditions. We seek to maintain a disciplined underwriting approach to underwrite for profitability in our active underwriting segments, StarStone and Atrium. For the three months ended March 31, 2017 compared to 2016, gross premiums written increased in both our StarStone and Atrium segments as we selectively grew in certain lines, which included the development of additional underwriting capabilities. StarStone's net earned premium, net incurred losses and acquisition costs decreased significantly as a result of the 35% quota share reinsurance agreement with our equity method investee KaylaRe Holdings Ltd. ("KaylaRe"), which covers the 2016 and subsequent underwriting years.

Low yields persist in the investment markets and investment returns remain volatile. We expect to maintain our investment strategy, which emphasizes the preservation of our assets, credit quality, and diversification. We are implementing strategies to selectively increase the duration in certain investment portfolios. We will continue to seek

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superior risk-adjusted returns by allocating a portion of our portfolio to non-investment grade securities or alternative investments in accordance with our investment guidelines.

Although there was significant volatility in the financial and foreign exchange markets following the Brexit referendum on June 23, 2016, this did not have a material impact on our financial statements. This volatility is expected to continue. During the three months ended March 31, 2017, Article 50 of the Lisbon Treaty was triggered, which allows two years for the United Kingdom and the 27 remaining European Union members to reach an agreement, otherwise the United Kingdom will leave the European Union on March 29, 2019. For companies based in the United Kingdom, including our active underwriting and run-off companies, there is heightened uncertainty regarding trading relationships with countries in the European Union. Both our StarStone and Atrium operations have well-diversified sources of premium, which may mitigate the potential impact of Brexit. The majority of business written in StarStone and Atrium is in United States dollars, so the impact of currency volatility on those segments has not been significant. In addition, StarStone already has established operations within the European Economic Area. Lloyd's has stated its intention to retain passporting rights and to lobby the government to include this in its negotiations with the European Union, whilst also evaluating alternative models to access the markets. In the near-term, access to markets is unaffected, and all contracts entered into up until that time are expected to remain valid into the post-Brexit period.

### **Recent Developments**

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

#### *RSA*

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

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

#### *QBE*

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

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

### **Non-GAAP Financial Measures**

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

The loss ratio is calculated by dividing net incurred losses and LAE by net premiums earned. The acquisition cost ratio is calculated by dividing acquisition costs by net premiums earned. The other operating expense ratio is calculated by dividing other operating expenses by net premiums earned. The combined ratio is the sum of the loss ratio, the acquisition cost ratio and the other operating expense ratio. The ratios exclude items related to the holding

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companies, which we believe is the most meaningful presentation because these items are not incremental and/or directly related to the individual underwriting operations.

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

In Atrium's other operating expense ratio, the excluded general and administrative expenses relate to amortization of the definite-lived intangible assets in the holding company and expenses relating to Atrium Underwriters Limited ("AUL"), including managing agency employee salaries, benefits, bonuses and current year share grant costs. The excluded AUL general and administrative expenses relate to expenses incurred in managing the syndicate, and eliminated items represent Atrium 5's share of the fees and commissions paid to AUL. We believe it is a more meaningful presentation to exclude the costs in managing the syndicate because they are principally funded by the profit commission fees earned from Syndicate 609, which is a revenue item not included in the insurance ratios.

In StarStone's other operating expense ratio for the three months ended March 31, 2017, the excluded general and administrative expenses relate to the amortization of the definite-lived intangible assets, recorded at the holding company level. In StarStone's other operating expense ratio for the three months ended March 31, 2016, the excluded general and administrative expenses relate to management fee expenses charged by our Non-life Run-off segment primarily related to our costs incurred in managing StarStone, the amortization of the definite-lived intangible assets, and acquisition-related expenses, in each case recorded at the holding company level.

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**Consolidated Results of Operations - For the Three Months Ended March 31, 2017 and 2016**

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

	Three Months Ended March 31,	
	2017	2016
(in thousands of U.S. dollars)		
<b>INCOME</b>		
Net premiums earned	\$ 148,898	\$ 192,887
Fees and commission income	11,914	6,424
Net investment income	48,739	50,280
Net realized and unrealized gains	58,519	38,277
Other income	12,198	2,410
	280,268	290,278
<b>EXPENSES</b>		
Net incurred losses and LAE	77,892	83,218
Life and annuity policy benefits	(301)	158
Acquisition costs	20,821	45,029
General and administrative expenses	102,468	92,934
Interest expense	6,868	5,398
Net foreign exchange losses	3,715	1,772
	211,463	228,509
<b>EARNINGS BEFORE INCOME TAXES</b>	68,805	61,769
<b>INCOME TAXES</b>	2,929	(7,369)
<b>NET EARNINGS FROM CONTINUING OPERATIONS</b>	71,734	54,400
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME</b>	371	205
Less: Net earnings attributable to noncontrolling interest	(17,425)	(9,085)
<b>NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>	\$ 54,680	\$ 45,520

**Highlights**

*Consolidated Results of Operations for the Three Months Ended March 31, 2017*

- Consolidated net earnings of \$54.7 million and basic and diluted earnings per ordinary share of \$2.82 and \$2.80, respectively
- Net earnings from Non-life Run-off segment of \$34.2 million, including investment results
- Net investment income of \$48.7 million and net realized and unrealized gains of \$58.5 million
- Net premiums earned of \$148.9 million, including \$115.4 million and \$32.2 million in our StarStone and Atrium segments, respectively
- Combined ratios of 97.9% and 82.8% for the active underwriting operations within our StarStone and Atrium segments, respectively (refer to "Non-GAAP Financial Measures" above)

*Consolidated Financial Condition as at March 31, 2017:*

- Total investments and cash of \$8,577.6 million

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- Total reinsurance balances recoverable of \$2,002.1 million
- Total assets of \$14,882.9 million
- Shareholders' equity of \$2,864.9 million and redeemable noncontrolling interest of \$473.1 million
- Total gross reserves for losses and LAE of \$7,753.9 million, with \$1,409.4 million of net reserves assumed in our Non-life Run-off operations during the three months ended March 31, 2017
- Policy benefits for life and annuity contracts of \$111.7 million
- Diluted book value per ordinary share of \$146.62

### **Consolidated Overview - For the Three Months Ended March 31, 2017 and 2016**

We reported consolidated net earnings attributable to Enstar Group Limited shareholders of \$54.7 million for the three months ended March 31, 2017, an increase of \$9.2 million from \$45.5 million for the three months ended March 31, 2016. Our comparative results were impacted by the loss portfolio transfer reinsurance transactions that we completed with RSA and QBE in 2017 and with Allianz SE, The Coca-Cola Company, and Neon Underwriting Limited (formerly Marketform) in 2016.

The most significant drivers of our consolidated financial performance during the three months ended March 31, 2017 as compared to the three months ended March 31, 2016 included:

- *Non-life Run-off* - Net earnings attributable to the Non-life Run-off segment were \$34.2 million and \$25.1 million for the three months ended March 31, 2017 and 2016, respectively. The increase in net earnings was primarily due to improved investment results, partially offset by the reduction in estimates of net ultimate incurred losses and the increase in net earnings attributable to noncontrolling interest;
- *StarStone* - Net earnings attributable to the StarStone segment were \$10.5 million and \$11.6 million for the three months ended March 31, 2017 and 2016, respectively. The reduction in net earnings was primarily attributable to lower net realized and unrealized gains on investments in 2017 compared to 2016, partially offset by improved underwriting performance;
- *Atrium* - Net earnings for the three months ended March 31, 2017 and 2016 were \$3.1 million and \$0.5 million, respectively. The increase was attributable to improved underwriting and investment results;
- *Life and Annuities* - Net earnings attributable to the Life and Annuities segment were \$6.9 million and \$8.4 million for the three months ended March 31, 2017 and 2016, respectively, with the decrease primarily attributable to lower net investment income earned from life settlements during the period;
- *Net Investment Income* - Net investment income was \$48.7 million and \$50.3 million for the three months ended March 31, 2017 and 2016, respectively. The decrease was primarily attributable to lower income earned on other investments.
- *Net Realized and Unrealized Gains* - Net realized and unrealized gains were \$58.5 million and \$38.3 million for the three months ended March 31, 2017 and 2016, respectively. This increase was primarily attributable to higher net unrealized gains in 2017 due to an increase in the valuations of other investments, equity securities and funds held-directly managed during the period; and
- *Noncontrolling Interest* - Noncontrolling interest in earnings is directly attributable to the results from those subsidiary companies in which there are either noncontrolling interests or redeemable noncontrolling interests. For the three months ended March 31, 2017 and 2016, the noncontrolling interest in earnings was \$17.4 million and \$9.1 million, respectively, primarily reflecting improved results of our subsidiaries in the Non-Life Run-off segment, in which third parties hold noncontrolling interests.

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**Results of Operations by Segment - For the Three Months Ended March 31, 2017 and 2016**

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

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

	Three Months Ended March 31,	
	2017	2016
	(in thousands of U.S. dollars)	
Segment split of net earnings attributable to Enstar Group Limited:		
Non-life Run-off	\$ 34,231	\$ 25,132
Atrium	3,110	468
StarStone	10,453	11,561
Life and Annuities	6,886	8,359
Net earnings attributable to Enstar Group Limited	<u>\$ 54,680</u>	<u>\$ 45,520</u>

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

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**Non-life Run-off Segment**

Our Non-Life Run-off segment comprises the operations of our subsidiaries that are running off their property and casualty and other non-life lines of business, including the run-off business of Arden Reinsurance Company Ltd., acquired in the Atrium transaction, and StarStone. It also includes our smaller management business, which manages the run-off portfolios of third parties through our service companies. The following is a discussion and analysis of the results of operations for our Non-life Run-off segment for the three months ended March 31, 2017, and 2016, which are summarized below.

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
(in thousands of U.S. dollars)			
<b>INCOME</b>			
Net premiums earned	\$ 76	\$ 5,435	\$ (5,359)
Fees and commission income	8,723	6,566	2,157
Net investment income	35,729	36,230	(501)
Net realized and unrealized gains	51,558	23,390	28,168
Other income	11,928	1,800	10,128
	<u>108,014</u>	<u>73,421</u>	<u>34,593</u>
<b>EXPENSES</b>			
Net incurred losses and LAE	(2,757)	(23,554)	20,797
Acquisition costs	400	1,982	(1,582)
General and administrative expenses	59,705	58,113	1,592
Interest expense	6,681	5,480	1,201
Net foreign exchange losses	785	880	(95)
	<u>64,814</u>	<u>42,901</u>	<u>21,913</u>
EARNINGS BEFORE INCOME TAXES	43,200	30,520	12,680
INCOME TAXES	(960)	(4,673)	3,713
NET EARNINGS	42,240	25,847	16,393
Less: Net loss (earnings) attributable to noncontrolling interest	(8,009)	(715)	(7,294)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	<u>\$ 34,231</u>	<u>\$ 25,132</u>	<u>\$ 9,099</u>

*Overall Results*

**Three Months Ended March 31:** Net earnings were \$34.2 million and \$25.1 million for the three months ended March 31, 2017 and 2016, respectively, an increase of \$9.1 million. This was primarily due to favorable investment results and an increase in other income, partially offset by lower favorable reserve development and an increase in general and administrative expenses, amongst other items.

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

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### *Net Premiums Earned:*

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
	(in thousands of U.S. dollars)		
Gross premiums written	\$ 983	\$ 6,697	\$ (5,714)
Ceded reinsurance premiums written	(902)	(1,426)	524
Net premiums written	81	5,271	(5,190)
Gross premiums earned	1,298	7,947	(6,649)
Ceded reinsurance premiums earned	(1,222)	(2,512)	1,290
Net premiums earned	\$ 76	\$ 5,435	\$ (5,359)

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

**Three Months Ended March 31:** Premiums written and earned in the three months ended March 31, 2017, and 2016 were primarily related to the run-off business of Sussex Insurance Company ("Sussex") and Alpha Insurance SA ("Alpha") for the obligatory renewal of certain policies that we are in the process of placing into run-off.

### *Fees and Commission Income:*

**Three Months Ended March 31:** Our management companies in the Non-life Run-off segment earned fees and commission income of \$8.7 million and \$6.6 million for the three months ended March 31, 2017 and 2016, respectively. The increase in fees is primarily related to services provided to KaylaRe. While our consulting subsidiaries continue to provide management and consultancy services, claims inspection services and reinsurance collection services to third-party clients in limited circumstances, the core focus of these subsidiaries is providing in-house services to companies within the Enstar group. These internal fees are predominantly eliminated upon consolidation of our results of operations.

### *Other income:*

**Three Months Ended March 31:** Other income for the three months ended March 31, 2017 increased from \$1.8 million for the three months ended March 31, 2017 to \$11.9 million, an increase of \$10.1 million. This included a gain on the sale of SeaBright Insurance Company ("SeaBright") and earnings from the equity method investment in KaylaRe. SeaBright contained only insurance licenses at the time of sale, having previously reinsured all of its run-off liabilities into another Enstar entity.

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*Net Incurred Losses and LAE:*

The following table shows the components of net incurred losses and LAE for the Non-life-Run-off segment for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,					
	2017			2016		
	Prior Periods	Current Period	Total	Prior Periods	Current Period	Total
	(in thousands of U.S. dollars)					
Net losses paid	\$ 156,331	\$ 241	\$ 156,572	\$ 130,323	\$ 1,990	\$ 132,313
Net change in case and LAE reserves <sup>(1)</sup>	(83,134)	—	(83,134)	(108,969)	184	(108,785)
Net change in IBNR reserves <sup>(1)</sup>	(79,078)	431	(78,647)	(40,513)	3,450	(37,063)
Amortization of deferred charge	946	—	946	1,611	—	1,611
Increase (reduction) in estimates of net ultimate losses	(4,935)	672	(4,263)	(17,548)	5,624	(11,924)
Increase (reduction) in provisions for bad debt	—	—	—	(1,448)	—	(1,448)
Increase (reduction) in provisions for unallocated LAE	(14,365)	42	(14,323)	(8,233)	445	(7,788)
Amortization of fair value adjustments	1,347	—	1,347	(2,394)	—	(2,394)
Changes in fair value - fair value option	14,482	—	14,482	\$ —	\$ —	\$ —
Net incurred losses and LAE	<u>\$ (3,471)</u>	<u>\$ 714</u>	<u>\$ (2,757)</u>	<u>\$ (29,623)</u>	<u>\$ 6,069</u>	<u>\$ (23,554)</u>

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

**Three Months Ended March 31, 2017:** The reduction in net incurred losses and LAE for the three months ended March 31, 2017 of \$2.8 million included net incurred losses and LAE of \$0.7 million related to current period net earned premium, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of \$0.7 million, net incurred losses and LAE liabilities relating to prior periods were reduced by \$3.5 million, which was attributable to a reduction in estimates of net ultimate losses of \$4.9 million, and a reduction in provisions for unallocated LAE of \$14.4 million, relating to 2017 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to \$1.3 million and an increase in fair value of \$14.5 million related to our assumed reinsurance agreements with RSA and QBE. The reduction in estimates of net ultimate losses for the three months ended March 31, 2017 included a net change in case and IBNR reserves of \$162.2 million and was reduced by amortization of the deferred charge of \$0.9 million.

**Three Months Ended March 31, 2016:** The reduction in net incurred losses and LAE for the three months ended March 31, 2016 of \$23.6 million included net incurred losses and LAE of \$6.1 million related to current period net earned premium of \$5.6 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of \$6.1 million, net incurred losses and LAE liabilities relating to prior periods were reduced by \$29.6 million, which was attributable to a reduction in estimates of net ultimate losses of \$17.5 million, a reduction in provisions for bad debt of \$1.4 million, and a reduction in provisions for unallocated LAE of \$8.2 million, and amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to \$2.4 million, relating to 2016 run-off activity. The reduction in estimates of net ultimate losses for the three months ended March 31, 2016 included a net change in case and IBNR reserves of \$145.8 million. The reduction of estimates in net ultimate losses for the three months ended March 31, 2016 was reduced by amortization of the deferred charge of \$1.6 million. The reduction in provisions for bad debt of \$1.4 million was a result of the collection of certain reinsurance recoverables against which bad debt provisions had been provided in earlier periods.

*Acquisition Costs:*

**Three Months Ended March 31:** Acquisition costs were \$0.4 million and \$2.0 million for the three months ended March 31, 2017 and 2016, respectively. Acquisition costs for the three months ended March 31, 2017 primarily related to net premiums earned on the Alpha Insurance business that was placed into run-off in November 2015.

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### *General and Administrative Expenses:*

**Three Months Ended March 31:** General and administrative expenses were \$59.7 million and \$58.1 million for the three months ended March 31, 2017 and 2016, respectively. The increase in general and administrative expenses was primarily related to expenses incurred in relation to significant new business acquired in 2017.

### *Interest Expense:*

**Three Months Ended March 31:** Interest expense was \$6.7 million and \$5.5 million for the three months ended March 31, 2017 and 2016, respectively. The increase in interest expense was primarily due to the increase in loans outstanding in 2017 as a result of drawdowns for acquisitions and significant new business during 2016 and 2017.

### *Net Foreign Exchange Losses*

**Three Months Ended March 31:** Net foreign exchange losses were \$0.8 million and \$0.9 million for the three months ended March 31, 2017 and 2016, respectively. The net foreign exchange losses for the three months ended March 31, 2017 and 2016 arose primarily as a result of the holding of surplus Euro and British pound assets at a time when the U.S. dollar appreciated against these currencies.

### *Noncontrolling Interest:*

**Three Months Ended March 31:** Noncontrolling interest in losses (earnings) of our Non-life Run-off segment was \$(8.0) million and \$(0.7) million for the three months ended March 31, 2017 and 2016, respectively. The number of subsidiaries in this segment with a noncontrolling interest remained unchanged at two as at March 31, 2017 and March 31, 2016.

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**Atrium Segment**

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

The following is a discussion and analysis of the results of operations for our Atrium segment for the three months ended March 31, 2017 and 2016, which are summarized below.

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
(in thousands of U.S. dollars)			
<b>INCOME</b>			
Net premiums earned	\$ 32,220	\$ 31,911	\$ 309
Fees and commission income	3,372	3,832	(460)
Net investment income	1,124	554	570
Net realized and unrealized gains	418	40	378
Other income	69	34	35
	<u>37,203</u>	<u>36,371</u>	<u>832</u>
<b>EXPENSES</b>			
Net incurred losses and LAE	12,488	15,589	(3,101)
Acquisition costs	10,772	11,087	(315)
General and administrative expenses	7,211	6,408	803
Interest expense	271	—	271
Net foreign exchange losses	832	1,815	(983)
	<u>31,574</u>	<u>34,899</u>	<u>(3,325)</u>
EARNINGS BEFORE INCOME TAXES	5,629	1,472	4,157
INCOME TAXES	(356)	(678)	322
NET EARNINGS	5,273	794	4,479
Less: Net earnings attributable to noncontrolling interest	(2,163)	(326)	(1,837)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	<u>\$ 3,110</u>	<u>\$ 468</u>	<u>\$ 2,642</u>

*Overall Results*

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

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
(in thousands of U.S. dollars)			
Atrium 5	\$ 2,989	\$ 329	\$ 2,660
AUL	599	530	69
Atrium Total	<u>3,588</u>	<u>859</u>	<u>2,729</u>
Holding Company	(478)	(391)	(87)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	<u>\$ 3,110</u>	<u>\$ 468</u>	<u>\$ 2,642</u>

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

	Three Months Ended March 31,		
	2017	2016	(Favorable) Unfavorable
Loss ratio <sup>(1)</sup>	38.8%	48.7%	(9.9)%
Acquisition cost ratio <sup>(1)</sup>	33.4%	34.7%	(1.3)%
Other operating expense ratio <sup>(1)</sup>	10.6%	10.9%	(0.3)%
Combined ratio <sup>(1)</sup>	82.8%	94.3%	(11.5)%

<sup>(1)</sup>Refer to "Non-GAAP Financial Measures" for a description of how these ratios are calculated. The ratios are based upon the following amounts for Atrium, which exclude amounts for AUL and the Holding Company, for the three months ended March 31, 2017 and 2016, respectively: net premiums earned of \$32,220 and \$31,911, net incurred losses and LAE of \$12,488 and \$15,589, acquisition costs of \$10,772 and \$11,087, and other operating expenses of \$3,407 and \$3,465.

The lower combined ratio of Atrium for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016 was due to decreases in the net loss ratio. This was primarily attributable to favorable current year loss development in the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

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

Investment results are separately discussed below in "Investments."

### *Gross Premiums Written:*

The following table provides gross premiums written by line of business for the Atrium segment for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
	(in thousands of U.S. dollars)		
Marine	\$ 5,516	\$ 4,631	\$ 885
Property and Casualty Binding Authorities	9,870	9,679	191
Upstream Energy	3,025	2,873	152
Reinsurance	9,588	6,383	3,205
Accident and Health	5,261	4,267	994
Non-Marine Direct and Facultative	3,330	3,915	(585)
Liability	5,849	5,269	580
Aviation	2,979	3,452	(473)
Terrorism <sup>(1)</sup>	995	1,049	(54)
Total	\$ 46,413	\$ 41,518	\$ 4,895

<sup>(1)</sup> Terrorism previously included war-related premiums, which have been reclassified to the marine and aviation lines. For the three months ended March 31, 2016, gross written premiums of \$0.5 million and \$0.8 million were reclassified to the marine and aviation lines, respectively.

See below for a discussion of the drivers of the change in net premiums written and earned for the three months ended March 31, 2017 and 2016.

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### *Net Premiums Earned:*

The following table provides net premiums earned by line of business for the Atrium segment for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
	(in thousands of U.S. dollars)		
Marine	\$ 3,491	\$ 4,358	\$ (867)
Property and Casualty Binding Authorities	8,912	8,510	402
Upstream Energy	2,087	2,116	(29)
Reinsurance	3,702	2,780	922
Accident and Health	3,880	3,155	725
Non-Marine Direct and Facultative	3,030	3,566	(536)
Liability	4,884	4,913	(29)
Aviation	1,469	1,741	(272)
Terrorism <sup>(1)</sup>	765	772	(7)
Total	\$ 32,220	\$ 31,911	\$ 309

<sup>(1)</sup> Terrorism previously included war-related premiums, which have been reclassified to aviation and marine lines. For the three months ended March 31, 2016, net earned premiums of \$0.5 million and \$0.5 million were reclassified to the marine and aviation lines, respectively.

**Three Months Ended March 31:** Net premiums earned for the Atrium segment were \$32.2 million and \$31.9 million for the three months ended March 31, 2017 and 2016, respectively. The increase in the reinsurance line of business was primarily due to new business written by underwriters hired in property reinsurance. We are seeing continued pressure on premium rates and terms and conditions due to overcapacity in many markets for insurable risks. We continue to focus on risk selection and underwriting for profitability.

### *Fees and Commission Income:*

**Three Months Ended March 31:** Fees and commission income were \$3.4 million and \$3.8 million for the three months ended March 31, 2017 and 2016, respectively. The fees primarily represent profit commission fees earned by us in relation to AUL's management of Syndicate 609 and other underwriting consortiums.

### *Net Incurred Losses and LAE:*

**Three Months Ended March 31:** Net incurred losses and LAE for the three months ended March 31, 2017 and 2016 were \$12.5 million and \$15.6 million, respectively. Net favorable prior year loss development for the three months ended March 31, 2017 and 2016 was \$2.0 million and \$0.5 million, respectively. Net favorable prior year loss development in the three months ended March 31, 2017 was spread across most lines of business. Net favorable prior year loss development in the three months ended March 31, 2016 primarily related to the reinsurance, professional liability, marine and energy liability lines of business. Excluding prior year loss development, net incurred losses and LAE for the three months ended March 31, 2017 and 2016 were \$14.4 million and \$16.1 million, respectively. The decrease in net incurred losses and LAE, excluding prior year loss development, was due to the large losses in 2016, particularly in the war, terrorism and aviation lines of business, compared to a lower level of losses in 2017.

### *Acquisition Costs:*

**Three Months Ended March 31:** Acquisition costs were \$10.8 million and \$11.1 million for the three months ended March 31, 2017 and 2016, respectively. The Atrium acquisition cost ratios for the three months ended March 31, 2017 and 2016 were 33.4% and 34.7%, respectively. The decrease for the three months ended March 31, 2017 was due to lower profit commissions payable on certain underlying business.

### *General and Administrative Expenses:*

**Three Months Ended March 31:** General and administrative expenses for the Atrium segment were \$7.2 million and \$6.4 million for the three months ended March 31, 2017 and 2016, respectively. The increase of \$0.8 million was primarily due to higher bonus accruals resulting from higher net earnings in the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

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*Noncontrolling Interest:*

**Three Months Ended March 31:** Noncontrolling interest in earnings of the Atrium segment was \$2.2 million and \$0.3 million for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017 and 2016, Trident and Dowling had a combined 41.03% noncontrolling interest in the Atrium segment.

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**StarStone Segment**

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

The following is a discussion and analysis of the results of operations for the StarStone segment for the three months ended March 31, 2017 and 2016, which are summarized below.

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
(in thousands of U.S. dollars)			
<b>INCOME</b>			
Net premiums earned	\$ 115,408	\$ 154,082	\$ (38,674)
Fee and commission income	1,166	—	1,166
Net investment income	5,449	5,280	169
Net realized and unrealized gains	6,698	14,349	(7,651)
Other income	46	11	35
	<u>128,767</u>	<u>173,722</u>	<u>(44,955)</u>
<b>EXPENSES</b>			
Net incurred losses and LAE	68,161	91,183	(23,022)
Acquisition costs	10,614	32,060	(21,446)
General and administrative expenses	34,021	30,155	3,866
Interest expense	622	—	622
Net foreign exchange losses (gains)	1,893	(1,299)	3,192
	<u>115,311</u>	<u>152,099</u>	<u>(36,788)</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	<u>13,456</u>	<u>21,623</u>	<u>(8,167)</u>
<b>INCOME TAXES</b>	<u>4,249</u>	<u>(2,018)</u>	<u>6,267</u>
<b>NET EARNINGS</b>	<u>17,705</u>	<u>19,605</u>	<u>(1,900)</u>
Less: Net earnings attributable to noncontrolling interest	(7,253)	(8,044)	791
<b>NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>	<u>\$ 10,452</u>	<u>\$ 11,561</u>	<u>\$ (1,109)</u>

*Overall Results*

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

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
(in thousands of U.S. dollars)			
StarStone <sup>(1)</sup>	\$ 10,402	\$ 11,263	\$ (861)
Holding Company	50	298	(248)
<b>NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>	<u>\$ 10,452</u>	<u>\$ 11,561</u>	<u>\$ (1,109)</u>

<sup>(1)</sup> StarStone's net earnings before noncontrolling interest were \$17.6 million for three months ended March 31, 2017 and \$19.1 million for the three months ended March 31, 2016.

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Net earnings were \$10.5 million and \$11.6 million for the three months ended March 31, 2017 and 2016, respectively, a decrease of \$1.1 million. This was primarily attributable to lower net realized and unrealized gains in the investment portfolio, partially offset by a tax benefit. In addition, the decreases in net premiums earned, net incurred losses and LAE and acquisition costs reflect the impact of the 35% whole account quota share reinsurance agreement with KaylaRe.

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

	Three Months Ended March 31,		
	2017	2016	(Favorable) Unfavorable
Loss ratio <sup>(1)</sup>	59.3%	60.2%	(0.9)%
Acquisition cost ratio <sup>(1)</sup>	9.2%	20.9%	(11.7)%
Other operating expense ratio <sup>(1)</sup>	29.4%	18.7%	10.7 %
Combined ratio <sup>(1)</sup>	97.9%	99.8%	(1.9)%

<sup>(1)</sup> Refer to "Non-GAAP Financial Measures" for a description of how these ratios are calculated. The ratios are based upon the following amounts for StarStone, which exclude Holding Company amounts, for the three months ended March 31, 2017 and 2016, respectively: net premiums earned of \$115,755 and \$153,497, net incurred losses and LAE of \$68,683 and \$92,428, acquisition costs of \$10,614 and \$32,060, and other operating expenses of \$33,991 and \$28,731.

The combined ratio was lower for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016, reflecting an overall decrease of 1.9%. The significant reduction in the acquisition cost ratio and the increase in the other operating expense ratio were primarily related to the 35% whole account quota share reinsurance arrangement with KaylaRe, which covers all business written during underwriting years 2016 and 2017. The ceding commission received from KaylaRe decreased the acquisition cost ratio and the other operating expense ratio increased due to a similar level of expenses on lower net premiums earned. The sum of the acquisition cost and other operating expense ratios for the three months ended March 31, 2017 and 2016 was 38.6% and 39.6%, respectively.

The Holding Company result comprises the amortization of definite-lived intangible assets and certain general and administrative expenses.

Investment results are separately discussed below in "Investments."

### *Gross Premiums Written:*

The following table provides gross premiums written by line of business for the StarStone segment for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
	(in thousands of U.S. dollars)		
Casualty	\$ 67,031	\$ 67,312	\$ (281)
Marine	75,752	69,377	6,375
Property	50,257	41,998	8,259
Aerospace	9,327	11,455	(2,128)
Workers' Compensation	24,169	26,901	(2,732)
Total	\$ 226,536	\$ 217,043	\$ 9,493

**Three Months Ended March 31:** Gross premiums written were \$226.5 million and \$217.0 million for the three months ended March 31, 2017 and 2016, respectively, an increase of \$9.5 million. The property line of business increased by \$8.3 million, primarily attributable to the construction line of business and other new business opportunities. The marine line of business increased by \$6.4 million, primarily attributable to additional business written in the U.S. and Europe.

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### *Net Premiums Earned:*

The following table provides net premiums earned by line of business for the StarStone segment for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
	(in thousands of U.S. dollars)		
Casualty	\$ 35,709	\$ 48,409	\$ (12,700)
Marine	27,310	33,989	(6,679)
Property	27,720	34,091	(6,371)
Aerospace	13,473	17,407	(3,934)
Workers' Compensation	11,196	20,186	(8,990)
Total	\$ 115,408	\$ 154,082	\$ (38,674)

**Three Months Ended March 31:** Net premiums earned for the StarStone segment for the three months ended March 31, 2017 decreased from 2016 by \$38.7 million to \$115.4 million. The decrease was attributable to the 35% whole account quota share reinsurance cession to KaylaRe. Excluding the impact of the reinsurance cession to KaylaRe, net premiums earned increased across all lines except for workers' compensation. The largest increase was in the casualty line of business which had higher net retention following adjustments to ceded reinsurance.

### *Net Incurred Losses and LAE:*

**Three Months Ended March 31:** Net incurred losses and LAE for the three months ended March 31, 2017 and 2016 were \$68.2 million and \$91.2 million, respectively, a decrease of \$23.0 million. The decrease was primarily attributable to the reinsurance cession to KaylaRe. Net favorable prior year loss development for the three months ended March 31, 2017 and 2016 was \$2.2 million and \$2.0 million, respectively. The loss ratio for the three months ended March 31, 2017 decreased by 0.9% to 59.3%, driven by mix of business.

### *Acquisition Costs:*

**Three Months Ended March 31:** Acquisition costs were \$10.6 million and \$32.1 million for the three months ended March 31, 2017 and 2016, respectively, a decrease of \$21.4 million. The acquisition cost ratios for the three months ended March 31, 2017 and 2016 were 9.2% and 20.9%, respectively, a decrease of 11.7% primarily due to the ceding commission earned on the KaylaRe quota share reinsurance contract.

### *General and Administrative Expenses:*

**Three Months Ended March 31:** General and administrative expenses for the three months ended March 31, 2017 and 2016 were \$34.0 million and \$30.2 million, respectively. The increase of \$3.9 million for the three months ended March 31, 2017 was primarily due to costs associated with our new managing general agent business, which had not commenced operations in the prior period, as well as additional headcount.

### *Noncontrolling Interest:*

**Three Months Ended March 31:** Noncontrolling interest in losses (earnings) of the StarStone segment was \$(7.3) million and \$(8.0) million for the three months ended March 31, 2017 and 2016, respectively. The decrease was due to lower net earnings before noncontrolling interest for the three months ended March 31, 2017 compared with the three months ended March 31, 2016. As of March 31, 2017 and 2016, Trident and Dowling had a combined 41.03% noncontrolling interest in the StarStone segment.

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**Life and Annuities Segment**

For our Life and Annuities segment, our run-off strategy differs from the non-life run-off business, in particular because we have limited ability to shorten the duration of the liabilities in this business through early claims settlement, commutations or policy buy-backs. Instead, we hold the policies associated with the life and annuities business to their natural maturity or lapse and pay claims as they become due. The presentation of the results in this segment reflect the classification of Pavonia as discontinued operations and held-for-sale. Following the sale of Pavonia, we will no longer have annuity products and our continuing life business will comprise term life products in Alpha and Laguna Life Holdings Limited, and the life settlements business.

The following is a discussion and analysis of our results of operations for our Life and Annuities segment for the three months ended March 31, 2017 and 2016, which are summarized below.

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
(in thousands of U.S. dollars)			
<b>INCOME</b>			
Net premiums earned	\$ 1,194	\$ 1,459	\$ (265)
Net investment income	7,334	8,638	(1,304)
Net realized and unrealized gains (losses)	(156)	498	(654)
Other income	155	565	(410)
	<u>8,527</u>	<u>11,160</u>	<u>(2,633)</u>
<b>EXPENSES</b>			
Life and annuity policy benefits	(301)	158	(459)
Acquisition costs	431	166	265
General and administrative expenses	1,482	1,971	(489)
Interest expense	191	335	(144)
Net foreign exchange losses	205	376	(171)
	<u>2,008</u>	<u>3,006</u>	<u>(998)</u>
<b>EARNINGS BEFORE INCOME TAXES</b>	<u>6,519</u>	<u>8,154</u>	<u>(1,635)</u>
<b>INCOME TAXES</b>	<u>(4)</u>	<u>—</u>	<u>(4)</u>
<b>NET EARNINGS FROM CONTINUING OPERATIONS</b>	<u>6,515</u>	<u>8,154</u>	<u>(1,639)</u>
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE</b>	<u>371</u>	<u>205</u>	<u>166</u>
<b>NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED</b>	<u>\$ 6,886</u>	<u>\$ 8,359</u>	<u>\$ (1,473)</u>

*Overall Results:*

**Three Months Ended March 31:** Net earnings were \$6.9 million and \$8.4 million for the three months ended March 31, 2017 and 2016, respectively, a decrease of \$1.5 million. The decrease was primarily due to lower net investment income.

The main driver of earnings from continuing operations in this segment was our life settlements business. For the three months ended March 31, 2017 and 2016, the contribution to earnings from our life settlements business was \$6.3 million and \$8.1 million, respectively. Net earnings of \$6.3 million in the three months ended March 31, 2017 comprised net investment income of \$6.8 million from policy maturity events, offset by expenses of \$0.5 million. Net earnings of \$8.1 million in the three months ended March 31, 2016 was comprised of net investment income of \$8.8 million from policy maturity events, offset by expenses of \$0.7 million.

The components of Pavonia's net earnings of \$0.4 million, classified as discontinued operations, are included in Note 3 - "Held-For-Sale Business" included within Item 1 of this Quarterly Report on Form 10-Q.

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**Investable Assets**

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

Investable assets were \$9.8 billion as at March 31, 2017 as compared to \$8.4 billion as at December 31, 2016, an increase of 16.7%. The increase was primarily due to the investments and funds held balance acquired in relation to our QBE and RSA transactions.

A description of our investment strategies is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Investments" in our Annual Report on Form 10-K for the year ended December 31, 2016.

**Composition of Investment Portfolio By Asset Class**

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

	March 31, 2017				December 31, 2016			
	Fair Value				Fair Value			
	Investment Grade <sup>(1)</sup>	Non-Investment Grade <sup>(2)</sup>	Total	%	Investment Grade <sup>(1)</sup>	Non-Investment Grade <sup>(2)</sup>	Total	%
<b>Fixed maturity and short-term investments, trading and available-for-sale</b>								
U.S. government & agency	\$ 787,121	\$ —	\$ 787,121	10.8%	\$ 852,984	\$ —	\$ 852,984	14.1%
Non-U.S. government	978,474	877	979,351	13.5%	352,786	—	352,786	5.8%
Corporate	3,090,983	128,007	3,218,990	44.3%	2,385,295	160,682	2,545,977	42.2%
Municipal	60,802	—	60,802	0.8%	53,757	—	53,757	0.9%
Residential mortgage-backed	302,017	33,254	335,271	4.6%	373,957	98	374,055	6.2%
Commercial mortgage-backed	207,191	16,376	223,567	3.1%	199,827	17,385	217,212	3.6%
Asset-backed	408,046	78,867	486,913	6.7%	409,671	72,485	482,156	8.0%
<b>Total</b>	<b>5,834,634</b>	<b>257,381</b>	<b>6,092,015</b>	<b>83.8%</b>	<b>4,628,277</b>	<b>250,650</b>	<b>4,878,927</b>	<b>80.8%</b>
<b>Equities</b>								
U.S.			106,337	1.5%			95,047	1.6%
<b>Total</b>			<b>106,337</b>	<b>1.5%</b>			<b>95,047</b>	<b>1.6%</b>
<b>Other investments</b>								
Private equity funds			284,385	3.9%			300,529	5.0%
Fixed income funds			253,499	3.5%			249,023	4.1%
Fixed income hedge funds			78,537	1.1%			85,976	1.4%
Equity funds			244,488	3.4%			223,571	3.7%
CLO equities			56,964	0.8%			61,565	1.0%
CLO equity funds			13,350	0.2%			15,440	0.3%
Other			932	—%			943	—%
<b>Total</b>			<b>932,155</b>	<b>12.9%</b>			<b>937,047</b>	<b>15.5%</b>
<b>Other investments</b>								
Life settlements			130,832	1.8%			129,474	2.1%
<b>Total investments</b>	<b>\$ 5,834,634</b>	<b>\$ 257,381</b>	<b>\$ 7,261,339</b>	<b>100.0%</b>	<b>\$ 4,628,277</b>	<b>\$ 250,650</b>	<b>\$ 6,040,495</b>	<b>100.0%</b>

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

<sup>(2)</sup> Non-Investment Grade included non-rated securities with a fair value of \$24.5 million and \$28.1 million as at March 31, 2017 and December 31, 2016, respectively.

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

### Composition of Funds Held - Directly Managed by Asset Class

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

	March 31, 2017				December 31, 2016			
	Fair Value				Fair Value			
	Investment Grade <sup>(1)</sup>	Non-Investment Grade	Total	%	Investment Grade <sup>(1)</sup>	Non-Investment Grade	Total	%
<b>Fixed maturity investments:</b>								
U.S. government & agency	\$ 34,187	\$ —	\$ 34,187	2.8%	\$ 47,885	\$ —	\$ 47,885	4.8%
Non-U.S. government	6,059	—	6,059	0.5%	5,961	—	5,961	0.6%
Corporate	786,315	—	786,315	65.0%	663,556	—	663,556	66.8%
Municipal	54,019	—	54,019	4.5%	38,927	—	38,927	3.9%
Commercial mortgage-backed	174,748	—	174,748	14.4%	151,395	—	151,395	15.2%
Asset-backed	96,207	—	96,207	8.0%	79,806	—	79,806	8.0%
Total	1,151,535	—	1,151,535	95.2%	987,530	—	987,530	99.3%
Other assets	—	—	58,154	4.8%	—	—	7,135	0.7%
<b>Total funds held - directly managed</b>	<b>\$ 1,151,535</b>	<b>\$ —</b>	<b>\$ 1,209,689</b>	<b>100.0%</b>	<b>\$ 987,530</b>	<b>\$ —</b>	<b>\$ 994,665</b>	<b>100.0%</b>

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

### Composition of Investable Assets By Segment

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

	Non-life Run-off	Atrium	StarStone	Life and Annuities	Total
(in thousands of U.S. dollars)					
<b>March 31, 2017</b>					
Short-term investments, trading, at fair value	\$ 228,299	\$ 2,173	\$ 28,918	\$ 4,121	\$ 263,511
Fixed maturities, trading, at fair value	4,384,482	41,650	1,126,767	32,919	5,585,818
Fixed maturities, available-for-sale, at fair value	1,517	124,213	—	116,956	242,686
Equities, trading, at fair value	97,990	1,496	6,851	—	106,337
Other investments, at fair value	758,458	5,636	160,776	7,285	932,155
Other investments, at cost	—	—	—	133,127	133,127
Total investments	5,470,746	175,168	1,323,312	294,408	7,263,634
Cash and cash equivalents	930,477	82,451	276,380	24,667	1,313,975
Funds held - directly managed	1,209,689	—	—	—	1,209,689
Funds held by reinsured companies	48,938	24,251	15,137	—	88,326
Total investable assets	<u>\$ 7,659,850</u>	<u>\$ 281,870</u>	<u>\$ 1,614,829</u>	<u>\$ 319,075</u>	<u>\$ 9,875,624</u>
Duration (in years)	3.59	1.29	2.19	2.73	3.27
Average Credit Rating	A+	AA-	A+	A+	A+

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

**Credit Quality and Maturity Profiles**

As at March 31, 2017 and December 31, 2016, our investment portfolio had an average credit quality rating of A+. As at March 31, 2017 and December 31, 2016, our fixed maturity investments rated lower than BBB- comprised 3.2% and 3.7% of our total investment portfolio, respectively. A detailed schedule of average credit ratings by asset class as at March 31, 2017 is included in "Note 4 - Investments - Credit Ratings" and Note 5 - "Funds Held - Directly Managed - Credit Ratings" of our unaudited condensed consolidated financial statements within Item 1 of this Quarterly Report on Form 10-Q. Schedules of maturities for our fixed maturity securities are included in "Note 4 - Investments" of our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

**Eurozone Exposure**

As at March 31, 2017 and December 31, 2016 we owned \$16.4 million and \$15.0 million, respectively, of investments in fixed maturity securities issued by the sovereign governments of Italy, Ireland and Spain.

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**Investment Results - Consolidated**

The following table summarizes our investment results for the three months ended March 31, 2017 and 2016.

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
(in thousands of U.S. dollars)			
Net investment income	\$ 48,739	\$ 50,280	\$ (1,541)
Net realized and unrealized gains	58,519	38,277	20,242
<b>Annualized Investment Book Yield</b>			
Annualized net investment income	194,956	201,120	(6,164)
Average aggregate invested assets, at cost <sup>(1)</sup>	8,974,985	8,840,012	134,973
Annualized investment book yield	2.17%	2.28%	(0.11)%
<b>Financial Statement Portfolio Return</b>			
Total financial statement return <sup>(2)</sup>	107,258	88,557	18,701
Average aggregate invested assets, at fair value <sup>(1)</sup>	8,950,828	8,790,523	160,305
Financial statement portfolio return	1.20%	1.01%	0.19 %

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

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

**Three Months Ended March 31:** Net investment income decreased by \$1.5 million during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 due to a decrease of 11 basis points in the book yield we obtained on our assets, partially offset by an increase in average investable assets. The decrease in yield was primarily due to the timing of significant new business transactions and changing mix in asset allocation.

The increase of \$20.2 million in net realized and unrealized gains was comprised of net unrealized gains of \$50.3 million in the three months ended March 31, 2017 compared to net unrealized gains of \$39.7 million in the three months ended March 31, 2016, and an increase in net realized gains of \$9.6 million. The increase in net unrealized gains in the three months ended March 31, 2017 was primarily due to an increase in the valuations of our other investment and equity portfolios, offset by a decrease in the valuation of the fixed maturity portfolio compared to the three months ended March 31, 2016. The realized gains related to sales in our private equity portfolio.

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**Investment Results - By Segment**

The following tables summarize our investment results by segment for the three months ended March 31, 2017 and 2016. These tables have been prepared on a basis consistent with the consolidated table above.

*Non-life Run-off*

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
	(in thousands of U.S. dollars)		
Net investment income	\$ 35,729	\$ 36,230	\$ (501)
Net realized and unrealized gains	51,558	23,390	28,168
<b>Annualized Investment Book Yield</b>			
Annualized net investment income	142,916	144,920	(2,004)
Average aggregate invested assets, at cost	6,750,902	6,621,521	129,381
Annualized investment book yield	2.12%	2.19%	(0.07)%
<b>Financial Statement Portfolio Return</b>			
Total financial statement return	87,287	59,620	27,667
Average aggregate invested assets, at fair value	6,733,689	6,595,522	138,167
Financial statement portfolio return	1.30%	0.90%	0.40%

**Three Months Ended March 31:** Net investment income decreased by \$0.5 million during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 due to a decrease of seven basis points in the book yield we obtained on our assets, partially offset by an increase in average investable assets. The decrease in yield was primarily due to the timing of significant new business transactions and changing mix in asset allocation.

The increase of \$28.2 million in net realized and unrealized gains comprised net unrealized gains of \$41.7 million in the three months ended March 31, 2017 compared to net unrealized gains of \$25.2 million in the three months ended March 31, 2016 and an increase in net realized gains of \$11.7 million. The increase in net unrealized gains in the three months ended March 31, 2017 was primarily due to an increase in the valuations of our other investments and equity portfolios, offset by a decrease in the valuation of the fixed maturity portfolio compared to the three months ended March 31, 2016. The realized gains relate to sales in our private equity portfolio.

*Atrium*

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
	(in thousands of U.S. dollars)		
Net investment income	\$ 1,124	\$ 554	\$ 570
Net realized and unrealized gains	418	40	378
<b>Annualized Investment Book Yield</b>			
Annualized net investment income	4,496	2,216	2,280
Average aggregate invested assets, at cost	269,037	312,812	(43,775)
Annualized investment book yield	1.67%	0.71%	0.96%
<b>Financial Statement Portfolio Return</b>			
Total financial statement return	1,542	594	948
Average aggregate invested assets, at fair value	264,754	307,841	(43,087)
Financial statement portfolio return	0.58%	0.19%	0.39%

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**Three Months Ended March 31:** Net investment income increased by \$0.6 million during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 due to an increase of 96 basis points in the book yield we obtained on our investable assets, partially offset by the decrease in our average investable assets. The increase in yield was primarily due to the changing mix in asset allocation as we executed on our investment strategies. Net realized and unrealized gains increased by \$0.4 million, driven by the inclusion of securities classified as trading in the portfolio.

*StarStone*

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
(in thousands of U.S. dollars)			
Net investment income	\$ 5,449	\$ 5,280	\$ 169
Net realized and unrealized gains	6,699	14,349	(7,650)
<b>Annualized Investment Book Yield</b>			
Annualized net investment income	21,796	21,120	676
Average aggregate invested assets, at cost	1,642,587	1,582,017	60,570
Annualized investment book yield	1.33%	1.34%	(0.01)%
<b>Financial Statement Portfolio Return</b>			
Total financial statement return	12,148	19,629	(7,481)
Average aggregate invested assets, at fair value	1,637,774	1,562,936	74,838
Financial statement portfolio return	0.74%	1.26%	(0.52)%

**Three Months Ended March 31:** Net investment income increased by \$0.2 million due to an increase in our average investable assets, partially offset by a decrease of one basis point in the book yield we obtained on those assets. Net realized and unrealized gains decreased by \$7.7 million during the three months ended March 31, 2017, primarily due to a decrease in the valuations of fixed maturity securities as treasury yields were higher at March 31, 2017 compared to March 31, 2016.

*Life and Annuities*

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
(in thousands of U.S. dollars)			
Net investment income	\$ 7,334	\$ 8,638	\$ (1,304)
Net realized and unrealized gains (losses)	(156)	498	(654)
<b>Annualized Investment Book Yield</b>			
Annualized net investment income	29,336	34,552	(5,216)
Average aggregate invested assets, at cost	312,459	323,662	(11,203)
Annualized investment book yield	9.39%	10.68%	(1.29)%
<b>Financial Statement Portfolio Return</b>			
Total financial statement return	7,178	9,136	(1,958)
Average aggregate invested assets, at fair value	314,611	324,224	(9,613)
Financial statement portfolio return	2.28%	2.82%	(0.54)%

**Three Months Ended March 31:** Net investment income decreased by \$1.3 million during the three months ended March 31, 2017 due to a decrease in earnings from life settlements. Net realized and unrealized gains (losses) decreased by \$0.7 million, primarily due to a decrease in the valuations of fixed maturity securities as treasury yields were higher at March 31, 2017 compared to March 31, 2016.

## Liquidity and Capital Resources

### Overview

Enstar aims to generate cash flows from our insurance operations and investments, preserve sufficient capital for future acquisitions, and develop relationships with lenders who provide borrowing capacity at competitive rates.

Our capital resources as at March 31, 2017 included shareholders' equity of \$2.9 billion, redeemable noncontrolling interest of \$0.5 billion classified as temporary equity, and debt obligations of \$0.7 billion. The redeemable noncontrolling interest may be settled in the future in cash or Enstar ordinary shares, at our option. Based on our current loss reserves position, our portfolios of in-force insurance and reinsurance business, and our investment positions, we believe we are well capitalized.

Enstar has not historically declared a dividend. We retain earnings and utilize distributions from our subsidiaries to invest in our business strategies. We do not currently expect to pay any dividends on our ordinary shares. Any payment of dividends must be approved by our Board of Directors. Our ability to pay dividends is subject to certain restrictions, as described in "Note 22 - Dividend Restrictions and Statutory Requirements" in the notes to our consolidated financial statements included within Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2016.

### Cash and Cash Equivalents

As at March 31, 2017 and December 31, 2016, we had total cash and cash equivalents, and restricted cash and cash equivalents of approximately \$1.3 billion. We expect our cash flows, together with our existing capital base and cash and investments acquired on the purchase of insurance and reinsurance subsidiaries, to be sufficient to meet cash requirements and to operate our business. For a description of our sources and uses of cash in our holding company and operating companies, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Liquidity and Capital Resources" in our Annual Report on Form 10-K for the year ended December 31, 2016. Our cash and cash equivalents are comprised mainly of cash, fixed deposits, commercial paper with maturities of less than three months and money market funds.

As of March 31, 2017, we had \$921.6 million of cash and cash equivalents, excluding restricted cash that supports insurance operations, and included in this amount was \$696.0 million held by foreign subsidiaries outside of Bermuda. Based on our group's current corporate structure with a Bermuda domiciled parent company and the jurisdictions in which we operate, if the cash and cash equivalents held by our foreign subsidiaries were to be distributed to us, as dividends or otherwise, such amounts would not be subject to incremental income taxes, however in certain circumstances withholding taxes may be imposed by some jurisdictions, including the United States. Based on existing tax laws, regulations and our current intentions, there was no accrual as of March 31, 2017 for any material withholding taxes on dividends or other distributions, as described in "Note 18 - Taxation" in the notes to our consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

The following table summarizes our consolidated cash flows provided by (used in) operating, investing and financing activities for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,		
	2017	2016	Increase (decrease)
(in thousands of U.S. dollars)			
Cash provided by (used in):			
Operating activities	\$ (94,139)	\$ (151,295)	\$ 57,156
Investing activities	43,644	87,370	(43,726)
Financing activities	56,100	(20,500)	76,600
Effect of exchange rate changes on cash	(10,275)	3,939	(14,214)
Net increase (decrease) in cash and cash equivalents	(4,670)	(80,486)	75,816
Cash and cash equivalents, beginning of period	1,318,645	1,295,169	23,476
Cash and cash equivalents, end of period	<u>\$ 1,313,975</u>	<u>\$ 1,214,683</u>	<u>\$ 99,292</u>

Details of our consolidated cash flows are included in "Item 1. Financial Statements - Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016 (unaudited)."

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**2017 versus 2016:** Cash and cash equivalents decreased by \$4.7 million during the three months ended March 31, 2017 compared with a decrease of \$80.5 million during the three months ended March 31, 2016.

For the three months ended March 31, 2017, the change in cash and cash equivalents was not significant overall, as net receipts of loans of \$56.1 million and cash flows from investing activities of \$43.6 million were offset by cash used in operations. During the three months ended March 31, 2017 we raised \$347.1 million of proceeds, net of issuance costs, from the public offering of Senior Notes, and those proceeds were used to repay a portion of our revolving credit facility.

For the three months ended March 31, 2016, cash and cash equivalents decreased by \$80.5 million, as cash used in operations of \$151.3 million and cash used in financing of \$20.5 million was partially offset by cash provided by investing activities of \$87.4 million. Cash used in operations is largely a result of the timing of loss payments across all of our segments. Cash utilized in financing related to a partial repayment of the Sussex facility.

### ***Investments***

As at March 31, 2017 and December 31, 2016, we had total investments of approximately \$7.3 billion and \$6.0 billion, respectively. The increase related to the transactions with QBE and RSA.

For information regarding our investments, refer to "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Investments."

### ***Reinsurance Balances Recoverable***

As at March 31, 2017 and December 31, 2016, we had reinsurance balances recoverable of \$2.0 billion and \$1.5 billion, respectively. The increase related to the transactions with QBE and RSA.

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

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

For further information regarding our reinsurance balances recoverable, refer to Note 8 - "Reinsurance Balances Recoverable" in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

### ***Funds Held by Reinsured Companies***

As at March 31, 2017 and December 31, 2016, we had funds held - directly managed of \$1.2 billion and \$1.0 billion, respectively. The increase was primarily due to the completion on January 11, 2017 of our transaction with QBE to reinsure portfolios of QBE's run-off business, which was completed on a partial funds held basis. Our funds held - directly managed is carried on our consolidated balance sheets at fair value due to a variable investment crediting rate on the Allianz transaction and the election of the fair value option for the reinsurance transaction with QBE. For further information regarding our funds held - directly managed, refer to Note 5 - "Funds held - directly managed" in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

In addition, as at March 31, 2017 and December 31, 2016, we had funds held by reinsured companies of \$88.3 million and \$82.1 million, respectively, which are carried at cost with a fixed crediting rate.

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

### ***Debt Obligations***

We utilize loan facilities primarily for acquisitions, loss portfolio transfer reinsurance transactions and, from time to time, for general corporate purposes. For information regarding our loan facilities, including our loan covenants, refer to "Note 13 - Debt Obligations" in the notes to our consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q. Debt obligations as of March 31, 2017 and December 31, 2016 were \$730.8 million and \$673.6 million, respectively.

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Our main facility is the EGL Revolving Credit Facility, originated on September 16, 2014 for a five-year term, and most recently amended on March 20, 2017. This facility is among the Company and certain of its subsidiaries, as borrowers and as guarantors, and various financial institutions. We are permitted to borrow up to an aggregate of \$831.3 million. The individual outstanding loans under the facility are unsecured short-term floating rate loans with an interest rate of LIBOR plus an applicable margin and utilization fee as set forth in the credit facility agreement. As at March 31, 2017, \$586.1 million of the total capacity was available for use under the EGL Revolving Credit Facility. During the three months ended March 31, 2017, our borrowing included €75.0 million to hedge the foreign currency exposure on our net investment in certain of our subsidiaries whose functional currency is denominated in Euros. Subsequent to March 31, 2017, we utilized \$20.0 million and repaid \$15.0 million, bringing unutilized capacity under this facility to \$581.1 million.

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

We also have the Sussex Facility, a four-year term loan, that was originated on December 24, 2014 with two financial institutions. There were no repayments under this facility during the three months ended March 31, 2017. As at March 31, 2017, the outstanding principal under this facility was \$63.5 million.

We also have a three-year unsecured term loan (the "EGL Term Loan Facility") that was originated on November 18, 2016. As at March 31, 2017, the outstanding principal under this facility was \$75.0 million, and there was no unutilized capacity.

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**Contractual Obligations**

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

	Total	Less than 1 Year	1 - 3 years	3 - 5 years	More than 5 Years
(in millions of U.S. dollars)					
<b>Operating Activities</b>					
Estimated gross reserves for losses and LAE <sup>(1)</sup>	\$ 8,131.3	\$ 1,424.7	\$ 2,415.1	\$ 1,196.8	\$ 3,094.7
Policy benefits for life and annuity contracts <sup>(2)</sup>	291.2	18.3	37.4	34.6	200.9
Operating lease obligations	49.9	10.3	18.5	11.5	9.6
<b>Investing Activities</b>					
Investment commitments	142.6	56.6	55.2	30.8	—
<b>Financing Activities</b>					
Loan repayments (including estimated interest payments)	863.6	27.5	446.7	389.4	—
<b>Total</b>	<b>\$ 9,478.6</b>	<b>\$ 1,537.4</b>	<b>\$ 2,972.9</b>	<b>\$ 1,663.1</b>	<b>\$ 3,305.2</b>

<sup>(1)</sup> The reserves for losses and LAE represent management's estimate of the ultimate cost of settling losses. The estimation of losses is based on various complex and subjective judgments. Actual losses paid may differ, perhaps significantly, from the reserve estimates reflected in our financial statements. Similarly, the timing of payment of our estimated losses is not fixed and there may be significant changes in actual payment activity. The assumptions used in estimating the likely payments due by period are based on our historical claims payment experience and industry payment patterns, but due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid in any such period can be significantly different from the amounts disclosed above. The amounts in the above table represent our estimates of known liabilities as of March 31, 2017 and do not take into account corresponding reinsurance recoverable amounts that would be due to us. Furthermore, certain of the reserves included in the unaudited condensed consolidated financial statements as of March 31, 2017 were acquired by us and initially recorded at fair value with subsequent amortization, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect the fair value adjustment in the amount payable.

<sup>(2)</sup> Policy benefits for life and annuity contracts recorded in our unaudited condensed consolidated balance sheet as at March 31, 2017 of \$111.7 million are computed on a discounted basis, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect a discount of the amount payable.

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

**Off-Balance Sheet Arrangements**

At March 31, 2017, we did not have any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

**Critical Accounting Policies**

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

*Fair Value Option - Insurance Contracts*

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

The fair value of the liability for losses and LAE and reinsurance recoverable under these contracts is presented separately in our consolidated balance sheet as at March 31, 2017. Changes in the fair value of the liability for losses and LAE and reinsurance recoverable are included in net incurred losses and LAE in our consolidated statement of operations.

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

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

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

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

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

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

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

### Cautionary Statement Regarding Forward-Looking Statements

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

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

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

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

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

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

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

**Interest Rate Risk**

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

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

As at March 31, 2017	Interest Rate Shift in Basis Points				
	-100	-50	—	+50	+100
	(in millions of U.S. dollars)				
Total Market Value	\$ 6,321	\$ 6,206	\$ 6,092	\$ 5,977	\$ 5,867
Market Value Change from Base	3.8%	1.9%	—	(1.9)%	(3.7)%
Change in Unrealized Value	\$ 229	\$ 114	\$ —	\$ (115)	\$ (225)
<b>As at December 31, 2016</b>	<b>-100</b>	<b>-50</b>	<b>—</b>	<b>+50</b>	<b>+100</b>
Total Market Value	\$ 5,040	\$ 4,969	\$ 4,879	\$ 4,830	\$ 4,762
Market Value Change from Base	3.3%	1.8%	—	(1.0)%	(2.4)%
Change in Unrealized Value	\$ 161	\$ 90	\$ —	\$ (49)	\$ (117)

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

**Credit Risk**

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

**Fixed Maturity and Short-Term Investments**

As a holder of fixed maturity and short-term investments, we also have exposure to credit risk as a result of investment ratings downgrades or issuer defaults. In an effort to mitigate this risk, our investment portfolio consists primarily of investment grade-rated, liquid, fixed maturity investments of short-to-medium duration and mutual funds. A table of credit ratings for our fixed maturity and short-term investments is in "Note 4 - Investments" in the notes to our unaudited condensed consolidated financial statements included within Part I, Item 1 of this Quarterly Report on Form 10-Q. As at March 31, 2017, approximately 50.2% of our fixed maturity and short-term investment portfolio was rated AA or higher by a major rating agency (December 31, 2016: 52.2%), with 3.8% rated lower than BBB- (December 31, 2016: 4.6%). The portfolio as a whole had an average credit quality rating of A+ as at March 31, 2017 (December 31, 2016: A+). In addition, we manage our portfolio pursuant to guidelines that follow what we believe are

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prudent standards of diversification. The guidelines limit the allowable holdings of a single issue and issuers and, as a result, we do not believe we have significant concentrations of credit risk.

### **Reinsurance**

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

As at March 31, 2017 and December 31, 2016, our reinsurance balances recoverable included \$264.0 million and \$242.1 million, respectively, from a related party and equity method investee, KaylaRe Ltd., amongst other balances, as discussed in "Note 19 - Related Party Transactions" in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report.

### **Funds Held**

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

### **Equity Price Risk**

Our portfolio of equity investments, including the equity funds and call options on equities included in other investments (collectively, "equities at risk"), has exposure to equity price risk, which is the risk of potential loss in fair value resulting from adverse changes in stock prices. Our global equity portfolio is correlated with a blend of the S&P 500 and MSCI World indices, and changes in this blend of indices would approximate the impact on our portfolio. The fair value of our equities at risk at March 31, 2017 was approximately \$350.8 million (December 31, 2016: \$318.6 million). At March 31, 2017, the impact of a 10% decline in the overall market prices of our equities at risk would be approximately \$35.1 million (December 31, 2016: \$31.9 million), on a pre-tax basis.

### **Foreign Currency Risk**

Our foreign currency policy is to broadly manage, where possible, our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with assets that are denominated in such currencies, subject to regulatory constraints. In addition, we may selectively utilize foreign currency forward contracts to mitigate foreign currency risk. To the extent our foreign currency exposure is not matched or hedged, we may experience foreign exchange losses or gains, which would be reflected in our results of operations and financial condition.

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

We have exposure to foreign currency risk through our ownership of European, British, Canadian, and Australian subsidiaries whose functional currencies are the Euro, British pound, Canadian dollar, and Australian dollar, respectively. The foreign exchange gain or loss resulting from the translation of their financial statements from functional

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currency into U.S. dollars is recorded in the currency translation adjustment account, which is a component of accumulated other comprehensive income (loss) in shareholders' equity. During the three months ended March 31, 2017, we maintained our borrowing of Euros under the EGL Revolving Credit Facility to hedge the foreign currency exposure on our net investment in certain of our subsidiaries whose functional currency is denominated in Euros. During the three months ended March 31, 2017, we entered into forward exchange contracts to hedge the foreign currency exposure on our net investment in certain of our subsidiaries whose functional currencies are denominated in Canadian and Australian dollars. The loan and the forward contracts are discussed in "Note 13 - Debt Obligations" and "Note 7 - Derivative Instruments", respectively, in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report. We utilized hedge accounting to record the foreign exchange gain or loss on these instruments in the currency translation account. We also utilized foreign currency forward contracts to hedge certain foreign currency exposures in British pounds and Euros which were not designated for hedge accounting.

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

2017	GBP	Euro	AUD	CDN	Other	Total
	(in millions of U.S. dollars)					
Total net foreign currency exposure	\$ 1.5	\$ 39.4	\$ 5.3	\$ 42.8	\$ 3.3	\$ 92.3
Pre-tax impact of a 10% movement of the U.S. dollar <sup>(1)</sup>	\$ 0.2	\$ 3.9	\$ 0.5	\$ 4.3	\$ 0.3	\$ 9.2
2016	GBP	Euro	AUD	CDN	Other	Total
	(in millions of U.S. dollars)					
Total net foreign currency exposure	\$ 20.6	\$ 17.9	\$ 12.2	\$ 26.6	\$ 5.2	\$ 82.5
Pre-tax impact of a 10% movement of the U.S. dollar <sup>(1)</sup>	\$ 2.1	\$ 1.8	\$ 1.2	\$ 2.7	\$ 0.5	\$ 8.3

<sup>(1)</sup> Assumes 10% change in the U.S. dollar relative to other currencies

### Effects of Inflation

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

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2017. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that we maintained effective disclosure controls and procedures to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and timely reported as specified in the rules and forms of the U.S. Securities and Exchange Commission and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II — OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

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

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

The following table provides information about ordinary shares acquired by the Company during the three months ended March 31, 2017, which were shares withheld from employees in order to facilitate the payment of withholding taxes on restricted shares. The Company does not have a share repurchase program.

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Program
January 1, 2017 - January 31, 2017	862	\$ 197.70	\$ —	\$ —
February 1, 2017 - February 28, 2017	—	\$ —	\$ —	\$ —
March 1, 2017 - March 31, 2017	3,751	\$ 191.30	\$ —	\$ —
Total	4,613		\$ —	\$ —

<sup>(1)</sup> Consist of shares withheld from employees in order to facilitate the payment of withholding taxes on restricted shares granted pursuant to our equity incentive plan. The shares are calculated at their fair market value, as determined by reference to the closing price of our ordinary shares on the vesting date.

**ITEM 6. EXHIBITS**

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

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on May 8, 2017.

ENSTAR GROUP LIMITED

By: /s/ MARK SMITH

Mark Smith  
Chief Financial Officer, Authorized Signatory and Principal  
Financial Officer

By: /s/ GUY BOWKER

Guy Bowker  
Chief Accounting Officer and Principal Accounting Officer

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### Exhibit Index

<b>Exhibit No.</b>	<b>Description</b>
<a href="#">2.1</a>	Stock Purchase Agreement, dated February 17, 2017, by and between Southland National Holdings, Inc. and Laguna Life Holdings SARL (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed on February 21, 2017).
<a href="#">3.1</a>	Memorandum of Association of Enstar Group Limited (incorporated by reference to Exhibit 3.1 of the Company's Form 10-K/A filed on May 2, 2011).
<a href="#">3.2</a>	Fourth Amended and Restated Bye-Laws of Enstar Group Limited (incorporated by reference to Exhibit 3.2(b) of the Company's Form 10-Q filed on August 11, 2014).
<a href="#">3.3</a>	Certificate of Designations of Series C Participating Non-Voting Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on June 17, 2016).
<a href="#">4.1</a>	Senior Indenture, dated as of March 10, 2017, between the Company and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on March 10, 2017).
<a href="#">4.2</a>	First Supplemental Indenture, dated as of March 10, 2017, between the Company and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed on March 10, 2017).
<a href="#">10.1+</a>	Amended and Restated Employment Agreement, dated as of March 28, 2017 and effective April 6, 2017, by and between Enstar Group Limited and Dominic F. Silvester (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on March 31, 2017).
<a href="#">10.2*+</a>	Amended and Restated Employment Agreement, dated as of April 12, 2017 and effective April 17, 2017, by and between Enstar Group Limited and Dominic F. Silvester.
<a href="#">31.1*</a>	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted under Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">31.2*</a>	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted under Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.1**</a>	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.2**</a>	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Interactive Data Files.

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\* filed herewith

\*\* furnished herewith

+ denotes management contract or compensatory arrangement

**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT ("Agreement") is dated 12 April 2017, between Enstar Group Limited (formerly known as Castlewood Holdings Limited), a Bermuda corporation ("Company"), and Dominic F. Silvester ("Executive") and amends and restates in its entirety the previous Employment Agreement dated 28 March 2017.

**BACKGROUND**

Company desires to continue to employ Executive, and Executive desires to continue to be an employee of Company, on the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein and intending to be legally bound hereby, the parties hereto agree as follows:

**TERMS****1. CAPACITY AND DUTIES**

**1.1. Employment; Acceptance of Employment.** Company hereby employs Executive and Executive hereby agrees to continue employment by Company for the period and upon the terms and conditions hereinafter set forth. Effective on the date hereof, this Agreement amends and restates the Employment Agreement between Company and Executive, dated as of May 1, 2007 and as subsequently amended, in its entirety, and the rights and obligations of each party shall be governed entirely by this Agreement from the April 17, 2017 (the "Commencement Date").

**1.2. Capacity and Duties.**

- (a) Executive shall serve as Chief Executive Officer of Company. Executive shall perform such duties and shall have such authority consistent with his position as Chief Executive Officer as may from time to time be specified by the Board of Directors of Company, acting reasonably. Executive shall report directly to the Board of Directors of Company. The Company's principle place of business is in Bermuda. The Executive's work location has been and will be Bermuda for the period between 1 April 2006 and 16 April 2017. Unless otherwise agreed in the future, the Executive's work location from 17 April 2017 will be the United Kingdom. It is recognised that extensive travel will be necessary and appropriate in connection with the performance of Executive's duties hereunder and in particular that certain actions required to be taken to satisfactorily dispose of the duties hereunder must be taken in Bermuda.
  - (b) Executive shall devote his full working time and energy, skill and best efforts during his working hours to the performance of his duties hereunder, in a manner that will comply with Company's rules and policies and will faithfully and diligently further the business and interests of Company. Executive and Company each agree that the nature of the Executive's position is such that his working time cannot be measured and, accordingly, that his appointment hereunder falls within the scope of regulation 20 of the Working Time Regulations 1998.
  - (c) During the Term (as hereinafter defined), Executive shall not be employed by or participate or engage in or in any manner be a part of the management or operation of any business enterprise other than Company without the prior written consent of the Board of Directors of the Company, which consent shall not be unreasonably withheld or delayed. Notwithstanding anything herein to the contrary, nothing shall preclude Executive from (i) serving on the boards of directors of a reasonable number of other companies or corporations or the boards of a reasonable number of trade associations and/or charitable organizations, (ii) engaging in charitable, community and other business affairs, and (iii) managing his personal investments and affairs, provided that such activities do not materially interfere with the proper performance of his responsibilities and duties hereunder.
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2. TERM OF EMPLOYMENT

- 2.1. **Term.** The term of Executive's employment hereunder shall be three years commencing on the Commencement Date, as further extended or unless sooner terminated in accordance with the other provisions hereof (the "Term").
- 2.2. **Continuous employment.** The Executive's period of continuous employment with the Company commenced on November 29, 2001.

3. COMPENSATION

- 3.1. **Basic Compensation.** As compensation for Executive's services during the first twelve months of the Term, Company shall pay to Executive an initial salary at the annual rate of £1,848,090 which shall accrue from day to day and be payable in equal monthly installments by bank transfer to such account as Executive may designate for this purpose and subject to such deductions for income tax and National Insurance contributions (or any equivalent thereof) as may be required by law. For each subsequent twelve-month period of Executive's employment hereunder, Executive's salary shall be in the amount of his initial annual salary as aforesaid with such increases, as may be established by the Board of Directors of Company in consultation with Executive. Once increased, Executive's annual salary cannot be decreased without the written consent of Executive. Executive's annual salary, as determined in accordance with this Section 3.1, is hereinafter referred to as his "Base Salary."
- 3.2. **Performance Bonus.** Executive shall, following the completion of each fiscal year of Company during the Term, be eligible for a performance bonus in accordance with Company's performance bonus plan. Executive shall also be eligible for additional equity and other incentive awards, at a level commensurate with his position and in accordance with the policies and practices of the Company.
- 3.3. **Employee Benefits.** During the Term, Executive shall be entitled to participate in such of Company's employee benefit plans and benefit programs, as may from time to time be provided by Company. If for any reason Executive's location in the United Kingdom precludes such participation, Company shall procure Executive's participation in such other plans and programs as shall most nearly replicate the benefits the Executive would otherwise have received, provided that if this cannot be done on any basis which provides benefits for Executive which, viewed as a whole in relation to each plan or program, are no less favourable to him than the benefits he would otherwise have received, Company shall pay Executive such additional annual salary under Section 3.1 above as shall be equal to the annual value to the Executive of the benefits he would otherwise have received. In addition, during the Term, Executive shall be entitled to the following:
- (a) a life insurance policy in the amount of five times the Executive's Base Salary, provided that Executive assists Company in the procurement of such policy (including, without limitation, submitting to any required physical examinations and completing accurately to the best of Executive's knowledge any applicable applications and or questionnaires);
  - (b) fully comprehensive medical and dental coverage on a worldwide basis for the Executive, his spouse and dependents and an annual medical examination for same. The Company further agrees to cover any reasonable medical and dental costs incurred by the Executive, his spouse and dependents during Term, whether or not such costs are covered by the Company's medical insurance policy;
  - (c) long term disability coverage, including coverage for serious illness, and full compensation (inclusive of any United Kingdom statutory sick pay entitlement) to be paid by Company at the same times and in the same manner as Executive's Base Salary for loss of earnings during the period up to and until Executive begins receiving benefits under such long term disability plan. In the event that the generally applicable group long-term disability plan contains a limitation on benefits that would result in Executive's being entitled to benefit payments under such plan which are less than 50% of his Base Salary, Company shall provide Executive with an individual disability policy paying a benefit amount that, when coupled with the group policy benefit payable, would provide Executive with aggregate benefits in connection with his long-term disability equal to 50% of his Base Salary (provided that, if an individual policy cannot be obtained for such amount on commercially reasonable rates and on commercially reasonable terms, Company shall provide

Executive with a policy providing for the greatest amount of individual coverage that is available on such standard terms and rates). Provision of any individual disability policy will also be contingent upon Executive being able to be insured at commercially reasonable rates and on commercially reasonable terms and upon Executive assisting Company in the procurement of such policy (including, without limitation, submitting to any required physical examinations and completing accurately to the best of Executive's knowledge any applicable applications and or questionnaires);

- (d) payment from the company of an annual amount equal to 10% of Executive's Base Salary each year to Executive or as he may direct in writing as contribution to his pension plans; and
- (e) during the Term, Executive will be reimbursed for one return trip for his family to/from any residence of the Executive outside the United Kingdom each calendar year. Executive's wife may travel business class and his children may travel premium economy class.

3.4. **Vacation.** During the Term, Executive shall be entitled to a paid vacation of 30 days in each year of the Term together with the usual public holidays. On termination of Executive's employment hereunder, Executive shall be entitled to payment in lieu of accrued but untaken holiday. The amount of such payment in lieu shall be 1/260th of the Executive's annual Base Salary as at date of termination for each untaken day of the entitlement.

3.5. **Expense Reimbursement.** Company shall reimburse Executive for all reasonable out-of-pocket expenses incurred by him in connection with the performance of his duties hereunder in accordance with its regular reimbursement policies as in effect from time to time.

#### 4. TERMINATION OF EMPLOYMENT

4.1. **Death of Executive.** If Executive dies during the Term, and for the year in which Executive dies, Company achieves the performance goals established in accordance with any incentive plan in which Executive participates, Company shall pay Executive's personal representatives or estate an amount equal to the bonus that Executive would have received had he been employed by Company for the full year, multiplied by a fraction, the numerator of which is the number of calendar days Executive was employed in such year and the denominator of which is 365. In addition, Executive's spouse and dependents (if any) shall be entitled for a period of 36 months, to continue to receive medical benefits coverage (as described in Section 3.3) at Company's expense if and to the extent Company was paying for such benefits for Executive's spouse and dependents at the time of Executive's death.

4.2. **Disability.** If Executive is or has been materially unable for any reason to perform his duties hereunder for 120 days during any period of 150 consecutive days, Company shall have the right to terminate Executive's employment upon 30 days' prior written notice to Executive at any time during the continuation of such inability, in which event Company shall thereafter be obligated to continue to pay Executive's Base Salary for a period of 36 months, periodically in accordance with Company's regular payroll practices and, within 30 days of such notice, shall pay any other amounts (including salary, bonuses, expense reimbursement, etc.) that have been fully earned by, but not yet paid to, Executive under this Agreement as of the date of such termination, subject in each case to such deductions for income tax and National Insurance (or any equivalent thereof) contributions as may be required by law. The amount of payments to Executive under disability insurance policies paid for by Company shall be credited against and shall reduce the Base Salary otherwise payable by Company following termination of employment. If, for the year in which Executive's employment is terminated pursuant to this Section, Company achieves the performance goals established in accordance with any incentive plan in which Executive participates, Company shall pay Executive an amount equal to the bonus that Executive would have received had he been employed by Company for the full year, multiplied by a fraction, the numerator of which is the number of calendar days Executive was employed in such year and the denominator of which is 365. Executive shall be entitled for a period of 36 months, to continue to receive at Company's expense medical benefits coverage (as described in Section 3.3) for Executive and Executive's spouse and dependents (if any) if and to the extent Company was paying for such benefits to Executive and Executive's spouse and dependents at the time of such termination.

4.3. **Termination for Cause.** Executive's employment hereunder shall terminate immediately upon notice that the Board of Directors of Company is terminating Executive for Cause (as defined herein), in which event

Company shall not thereafter be obligated to make any further payments hereunder other than amounts (including salary, expense reimbursement, etc.) that have been fully earned by, but not yet paid to, Executive under this Agreement as of the date of such termination. "Cause" shall mean (a) fraud or dishonesty in connection with Executive's employment that results in a material injury to Company, (b) conviction of any felony or crime involving fraud or misrepresentation or (c) after Executive has received written notice of the specific material and continuing failure of Executive to perform his duties hereunder (other than by reason of death or disability) and has failed to cure such failure within 30 days of receipt of the notice, or (d) material and continuing failure to follow reasonable and lawful instructions of the Board of Directors after Executive has received prior written notice of the specific material and continuing failure to follow such instructions and has failed to cure such failure within 30 days of receipt of the notice.

**4.4. Termination without Cause or for Good Reason.**

- (a) If (1) Executive's employment is terminated by Company for any reason other than Cause or the death of Executive, or (2) Executive's employment is terminated by Executive for Good Reason (as defined herein):
  - (i) Company shall pay Executive any amounts (including salary, bonuses, expense reimbursement, etc.) that have been fully earned by, but not yet paid to, Executive under this Agreement as of the date of such termination, together with any payment in lieu of accrued but untaken holiday;
  - (ii) Company shall pay Executive a lump sum amount equal to three times the Base Salary payable to him as of the date of such termination, subject to such deductions for income tax and National Insurance (or any equivalent thereof) contributions as may be required by law;
  - (iii) Executive shall be entitled to continue to receive medical benefits coverage (as described in Section 3.3) for Executive and Executive's spouse and dependents (if any) at Company's expense for a period of 36 months;
  - (iv) Anything to the contrary in any other agreement or document notwithstanding, each outstanding equity incentive award granted to Executive before, on or within three years after the Commencement Date shall become immediately vested and exercisable on the date of such termination; and
  - (v) In addition, if, for the year in which Executive is terminated, Company achieves the performance goals established in accordance with any incentive plan in which Executive participates, Company shall pay an amount equal to the bonus that Executive would have received had he been employed by Company for the full year.
- (b) Upon making the payments described in this Section 4.4, Company shall have no further obligation to Executive under this Agreement. To the extent that the payments to be made under this Section 4.4 are damages (which is not admitted), Company and Executive agree that the terms of this Section 4.4 represent a genuine pre-estimate of the loss to the Executive that would arise on termination of employment hereunder in the circumstances described and does not constitute a penalty. Company waives any requirement on Executive to mitigate his losses in respect of such termination.
- (c) "Good Reason" shall mean the following:
  - (i) material breach of Company's obligations hereunder, provided that Executive shall have given written notice thereof to Company, and Company shall have failed to remedy the breach within 30 days;
  - (ii) the relocation of Executive's principal business office outside of the United Kingdom, without the Executive's prior agreement; or
  - (iii) any material reduction in Executive's duties or authority.

**4.5. Change in Control.**

- (a) If, during the Term, there should be a Change of Control (as defined herein), and within 1 year thereafter either (i) Executive's employment should be terminated for any reason other than for Cause or (ii) Executive terminates his employment for Good Reason (as defined in Section 4.4):
- (i) Company shall pay Executive any amounts (including salary, bonuses, expense reimbursement, etc.) that have been fully earned by, but not yet paid to, Executive under this Agreement as of the date of such termination, together with any payment in lieu of accrued but untaken holiday;
  - (ii) Company shall pay Executive a lump sum amount equal to three times Executive's Base Salary as of the date of such termination, subject to such deductions for income tax and National Insurance contributions as may be required by law;
  - (iii) Executive shall be entitled to continue to receive medical benefits coverage (as described in Section 3.3) for Executive and Executive's spouse and dependents (if any) at Company's expense for a period of 36 months;
  - (iv) Anything to the contrary in any other agreement or document notwithstanding, each outstanding equity incentive award granted to Executive before, on or after the date hereof shall become immediately vested and exercisable on the date of such termination; and
  - (v) In addition, if, for the year in which Executive is terminated, Company achieves the performance goals established in accordance with any incentive plan in which Executive participates, Company shall pay an amount equal to the bonus that Executive would have received had he been employed by Company for the full year.
- (b) Upon making the payments described in this Section 4.5, Company shall have no further obligation to Executive under this Agreement. To the extent that the payments to be made under this Section 4.5 are damages (which is not admitted), Company and Executive agree that the terms of this Section 4.4 represent a genuine pre-estimate of the loss to the Executive that would arise on termination of employment hereunder in the circumstances described and does not constitute a penalty. Company waives any requirement on Executive to mitigate his losses in respect of such termination.
- (c) A "Change in Control" of Company shall mean:
- (i) the acquisition by any person, entity or "group" required to file a Schedule 13D or Schedule 14D-1 under the United States Securities Exchange Act of 1934 (the "1934 Act") (excluding, for this purpose, Company, its subsidiaries, any employee benefit plan of Company or its subsidiaries which acquires ownership of voting securities of Company, and any group that includes Executive) of beneficial ownership (within the meaning of Rule 13d-3 under the 1934 Act) of 50% or more of either the then outstanding ordinary shares or the combined voting power of Company's then outstanding voting securities entitled to vote generally in the election of directors;
  - (ii) the election or appointment to the Board of Directors of Company, or resignation of or removal from the Board, of directors with the result that the individuals who as of the date hereof constituted the Board (the "Incumbent Board") no longer constitute at least a majority of the Board, provided that any person who becomes a director subsequent to the date hereof whose appointment, election, or nomination for election by Company's shareholders, was approved by a vote of at least a majority of the Incumbent Board (other than an appointment, election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of Company) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

- (iii) approval by the shareholders of Company of: (i) a reorganization, merger or consolidation by reason of which persons who were the shareholders of Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of the combined voting power of the reorganized, merged or consolidated company's then outstanding voting securities entitled to vote generally in the election of directors, or (ii) a liquidation or dissolution of Company or the sale, transfer, lease or other disposition of all or substantially all of the undertaking or assets of Company (whether such assets are held directly or indirectly).

## 5. RESTRICTIVE COVENANTS

### 5.1. **Restrictive Covenants.**

- (a) Executive acknowledges that he is one of a small number of key executives and that in such capacity, he will have access to confidential information of the Company and will engage in key client relationships on behalf of the Company and that it is fair and reasonable for protection of the legitimate interests of the Company and the other key executives of the Company that he should accept the restrictions described in Exhibit A hereto.
- (b) Promptly following Executive's termination of employment, Executive shall return to the Company all property of the Company, and all documents, accounts, letters and papers of every description relating to the affairs and business of the Company or any of its subsidiaries, and copies thereof in Executive's possession or under his control, other than any such in Executive's possession or under his control in his capacity as a stockholder of Company or that are available publicly.
- (c) Executive acknowledges and agrees that the covenants and obligations of Executive in Exhibit A and this Section 5.1 relate to special, unique and extraordinary matters and that a violation of any of the terms of such covenants and obligations will cause the Company irreparable injury for which adequate remedies are not available at law. Therefore, Executive agrees that the Company shall be entitled to an injunction, restraining order or such other equitable relief (without the requirement to post bond) restraining Executive from committing any violation of the covenants and obligations contained in Exhibit A and this Section 5.1. These injunctive remedies are cumulative and are in addition to any other rights and remedies the Company may have at law or in equity.
- (d) Executive agrees that if he applies for, or is offered employment by (or is to provide consultancy services to) any other person, firm, company, business entity or other organization whatsoever (other than an affiliate of the Company) during the restriction periods set forth in Exhibit A, he shall promptly, and before entering into any contract with any such third party, provide to such third party a full copy of Exhibit A and this Section 5.1 in order to ensure that such other party is fully aware of Executive's obligations hereunder.

5.2. **Intellectual Property Rights.** Executive recognizes and agrees that Executive's duties for the Company may include the preparation of materials, including written or graphic materials for the Company or its affiliate, and that any such materials conceived or written by Executive shall be made in the course of his employment for the purposes of section 11(2) of the Copyright, Designs and Patents Act 1988. Executive agrees that because any such work is so made, the Company (or the relevant affiliate of the Company) will solely retain and own all copyright in said materials. Executive agrees to disclose and assign to the Company his entire right, title and interest in and to all other intellectual property rights in such work and all inventions and improvements related to the Company's business or to the business of the Company's affiliates (including, but not limited to, all financial and sales information), whether patentable or not, whether made or conceived by him individually or jointly with others at any time during his employment by the Company hereunder. Such inventions and improvements are to become and remain the property of the Company and Executive shall take such actions as are reasonably necessary to effectuate the foregoing.

## 6. MISCELLANEOUS

6.1. **Key Employee Insurance.** Company shall have the right at its expense to purchase insurance on the life of Executive, in such amounts as it shall from time to time determine, of which Company shall be the

beneficiary. Executive shall submit to such physical examinations as may reasonably be required and shall otherwise cooperate with Company in obtaining such insurance.

- 6.2. Indemnification/Litigation.** Company shall indemnify and defend Executive against all claims arising out of Executive's activities as an officer or employee of Company or its affiliates to the fullest extent permitted by law and under Company's organizational documents. During the Term and for six years following the end of the Term, Executive shall be entitled to be covered by a policy of directors' and officers' liability insurance on commercially reasonable terms sufficient to cover the risk to Executive that would reasonably be expected to result from his activities as aforesaid and a copy of the policy shall be provided to Executive upon his request from time to time. To the extent permitted by law, Executive will, also continue to receive the benefit of the Director Indemnification Agreement between the Executive and the Company dated January 31, 2007, and the benefit of any variation to or replacement of the Director Indemnification Agreement agreed by the parties during the term. At the request of Company, Executive shall during and after the Term render reasonable assistance to Company in connection with any litigation or other proceeding involving Company or any of its affiliates, unless precluded from so doing by law. Company shall provide reasonable compensation to Executive for such assistance rendered after the Term.
- 6.3. Indemnification/Taxation.** Company recognizes that Executive has and will continue to spend significant time in jurisdictions outside of Executive's tax residence, and that while outside his tax residence Executive has and will continue to discharge his duties for Company. Company agrees as follows:
- (a) to indemnify Executive for any liability for, or in connection with, any taxation relating to Executive's compensation in any jurisdiction other than the Executive's tax residence (those being the work locations for the relevant periods specified at clause 1.2(a) herein) for the period for which the relevant tax claim or demand is made, which arises as a direct consequence of the Executive being in that jurisdiction in order to discharge his duties to Company prior to and/or after Commencement Date; and
    - (i) to provide all reasonable support to Executive in responding to any such claim or demand for or in connection with taxation by any statutory authority outside the jurisdiction of his tax residence; and
    - (ii) to indemnify Executive for all costs and expenses reasonably incurred by Executive (including legal fees) in responding to or defending any such claims or demands; and
  - (b) to engage a service provider to prepare all required tax filings by any statutory authority outside of the Executive's tax residence arising due to Executive discharging his duties outside of his tax residence and related to Executive's compensation from Company, provided, however that Executive shall have the right to have his own personal tax adviser participate in the review and preparation of the filings.

In indemnifying Executive, Company will pay any liabilities, costs or expenses the subject of the indemnity without undue delay. The Company will ensure that the net sum received by Executive pursuant to the indemnity (if deductions are payable for tax, statutory charges or National Insurance contributions) covers all such liabilities, costs or expenses, with such net sum calculated by the Company or its service provider; provided, however that Executive shall have the right to have his own personal tax adviser participate in the review of the calculation to the extent reasonably practicable.

- 6.4. No Mitigation.** In no event shall Executive be required to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under this Agreement, and such amounts shall not be reduced whether or not Executive obtains other employment after termination of his employment hereunder.
- 6.5. Severability.** The invalidity or unenforceability of any particular provision or part of any provision of this Agreement shall not affect the other provisions or parts hereof.
- 6.6. Assignment; Benefit.** This Agreement shall not be assignable by Executive, and shall be assignable by Company only with the Executive's consent and only to any person or entity which may become a successor in interest (by purchase of assets or stock, or by merger, or otherwise) to Company in the

business or substantially all of the business presently operated by it. Any Change in Control is deemed an assignment. Subject to the foregoing, this Agreement and the rights and obligations set forth herein shall inure to the benefit of, and be binding upon, the parties hereto and each of their respective permitted successors, assigns, heirs, executors and administrators.

**6.7. Notices.** All notices hereunder shall be in writing and shall be sufficiently given if hand-delivered, sent by documented overnight delivery service or registered or certified mail, postage prepaid, return receipt requested or by facsimile, receipt acknowledged, addressed as set forth below or to such other person and/or at such other address as may be furnished in writing by any party hereto to the other. Any such notice shall be deemed to have been given as of the date received, in the case of personal delivery, or on the date shown on the receipt or confirmation therefor, in all other cases. Any and all service of process and any other notice in any action, suit or proceeding shall be effective against any party if given as provided in this Agreement; provided that nothing herein shall be deemed to affect the right of any party to serve process in any other manner permitted by law.

(a) If to Company:  
Enstar Group Limited  
P.O. Box HM 2267  
Windsor Place, 3rd Floor  
22 Queen Street  
Hamilton HM JX  
Bermuda  
Attention: President  
Facsimile No.: 1 441 292 6603

(b) If to Executive:  
Dominic F. Silvester  
Address on File with the Company's Human Resources Staff

**6.8. Entire Agreement; Modification; Advice of Counsel.**

- (a) This Agreement constitutes the entire agreement between the parties hereto with respect to the matters contemplated herein and supersedes all prior agreements and understandings with respect thereto. Each party acknowledges that in entering into this agreement it does not rely on, and shall have no remedies in respect of, any statement, representation, assurance or warranty (whether made innocently or negligently) that is not set out in this Agreement. Each party agrees that it shall have no claim for innocent or negligent misrepresentation or negligent misstatement based on any statement in this Agreement. Nothing in this Section 6.7(a) shall limit or exclude any liability for fraud.
- (b) No addendum, amendment, modification, or waiver of this Agreement shall be effective unless in writing. Neither the failure nor any delay on the part of any party to exercise any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy preclude any other or further exercise of the same or of any other right or remedy with respect to such occurrence or with respect to any other occurrence.
- (c) Executive acknowledges that he has been afforded an opportunity to consult with his counsel with respect to this Agreement.

**6.9. Collective Agreements.** There is no collective agreement which directly affects Executive's employment hereunder.

**6.10. Third Party Rights.** No one other than a party to this agreement shall have any right to enforce any of its terms.

**6.11. Governing Law.** This Agreement is made pursuant to, and shall be construed and enforced in accordance with, the laws of England and Wales, without giving effect to otherwise applicable principles of conflicts of law.

- 6.12. Jurisdiction.** Company and Executive irrevocably agree that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute or claim arising out of or in connection with this Agreement or its subject matter or formation (including non-contractual disputes or claims).
- 6.13. Headings; Counterparts.** The headings of paragraphs in this Agreement are for convenience only and shall not affect its interpretation. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which, when taken together, shall be deemed to constitute the same Agreement.
- 6.14. Further Assurances.** Each of the parties hereto shall execute such further instruments and take such additional actions as the other party shall reasonably request in order to effectuate the purposes of this Agreement.
- 6.15. Clawback Right.** Notwithstanding any other provisions in this Agreement to the contrary, any incentive-based compensation paid to Executive pursuant to this Agreement or any other agreement or arrangement with Company that is subject to recovery under any law, government regulation, stock exchange listing requirement or Company policy approved by the Board and notified to the Executive, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation, stock exchange listing requirement or Company policy.
- 6.16. Withholding.** All payments to Executive hereunder are subject to such deductions for income tax and National Insurance (or any equivalent thereof) as may be required by law.

*[signature page follows]*

**This Agreement** has been executed as a deed and is delivered and takes effect on the date stated at the beginning of it.

**Signed as a deed** on behalf of  
**ENSTAR GROUP LIMITED,**  
a Company incorporated under the  
laws of Bermuda, by  
ORLA GREGORY  
being a person who, in accordance with the  
laws of that territory, is acting under the  
authority of the Company

/s/ Orla Gregory  
Authorised Signatory

**Signed as a deed** by  
**Dominic F. Silvester**  
in the presence of:

/s/ Dominic F Silvester  
Dominic F. Silvester

/s/ David Hackett  
Signature of witness  
Name of witness: David Hackett  
Address of witness: \*  
Occupation of witness: Accountant  
\*Forburrow Cottage  
Forburrow Hill Road  
Bramley Surrey, UK  
GBU5 0BU

## Exhibit A

### Restrictive Covenants

- A. Noncompetition. During the Term and, if Executive fails to remain employed through the third anniversary of the Commencement Date, for a period of eighteen (18) months after Executive's employment terminates (the "Restriction Period"), Executive shall not, without the prior written permission of the Board, directly or indirectly engage in any Competitive Activity. The term "Competitive Activity" shall include (i) entering the employ of, or rendering services to, any person, firm or corporation engaged in the insurance and reinsurance run-off or any other business in which the Company or any of its affiliates has been engaged at any time during the last twelve months of the Term and to which Executive has rendered services or about which Executive has acquired Confidential Information or by which Executive has been engaged at any time during the last twelve months of his period of employment hereunder and in each case in any jurisdiction in which the Company or any of its affiliates has conducted substantial business (hereinafter defined as the "Business"); (ii) engaging in the Business for Executive's own account or becoming interested in any such Business, directly or indirectly, as an individual, partner, shareholder, member, director, officer, principal, agent, employee, trustee, consultant, or in any other similar capacity; provided, however, nothing in this Paragraph A shall prohibit Executive from owning, solely as a passive investment, 5% or less of the total outstanding securities of a publicly-held company, or any interest held by Executive in a privately-held company as of the date of this Agreement; provided further that the provisions of this Paragraph A shall not apply in the event Executive's employment with the Company is terminated without Cause or with Good Reason.
- B. Confidentiality. Without the prior written consent of the Company, except to the extent required by an order of a court or tribunal having competent jurisdiction or under subpoena from an appropriate regulatory authority, Executive shall not disclose and shall use his best endeavours to prevent the disclosure of any trade secrets, customer lists, market data, marketing plans, sales plans, management organization information (including data and other information relating to members of the Board and management), operating policies or manuals, business plans or financial records, or other financial, commercial, business or technical information relating to the Company or any of its subsidiaries or affiliates or information designated as confidential or proprietary that the Company or any of its subsidiaries or affiliates may receive belonging to clients or others who do business with the Company or any of its subsidiaries or affiliates (collectively, "Confidential Information") to any third person unless such Confidential Information has been previously disclosed to the public by the Company or any of its subsidiaries or affiliates or is in the public domain (other than by reason of Executive's breach of this Paragraph B). In the event that Executive is required to disclose Confidential Information in a legal proceeding, Executive shall provide the Company with notice of such request as soon as reasonably practicable, so that the Company may timely seek an appropriate protective order or waive compliance with this Paragraph B, except if such notice would be unlawful or would place Executive in breach of an order of a court or tribunal having competent jurisdiction or of any applicable regulatory rules or codes of practice or of an undertaking he is required to give by law or regulation. Nothing in this Agreement prohibits or restricts Executive (or Executive's attorney) from initiating communications directly with, responding to an inquiry from, or providing testimony before the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), any other self-regulatory organization or any other regulatory authority regarding possible violations of applicable law or making other disclosures that are protected under the whistleblower provisions of any applicable law.
- C. Non-Solicitation of Employees. During the Restriction Period, Executive shall not, without the prior written permission of the Board, directly or indirectly induce any Senior Employee of the Company or any of its affiliates to terminate employment with such entity, and shall not directly or indirectly, either individually or as owner, agent, employee, consultant or otherwise, offer employment to or employ any Senior Employee unless such person shall have ceased to be employed by the Company or any affiliate for a period of at least six (6) months. For the purpose of this Paragraph C, "Senior Employee" shall mean a person who, at any time during the last twelve months of Executive's period of employment hereunder:
- (i) is engaged or employed (other than in a clerical, secretarial or administrative capacity) as an employee, director or consultant of the Company or its affiliates; and
  - (ii) is or was engaged in a capacity in which he obtained Confidential Information; and
-

(iii) had personal dealings with Executive.

- D. Non-Disparagement. Save as may be required by law or by any applicable regulatory rules or codes of practice or an order of a court or tribunal of competent jurisdiction, Executive shall not do or say anything adverse or harmful to, or otherwise disparaging of, the Company or its subsidiaries and their respective goodwill. Save as may be required as aforesaid, the Company shall not, and shall use its reasonable endeavours to ensure that its officers, directors, employees and subsidiaries do not, do or say anything adverse or harmful to, or otherwise disparaging of, Executive and his goodwill; provided that no action by either party in connection with the enforcement of its rights hereunder shall be construed as a violation of this Paragraph D.
- E. Definition. In this Exhibit A, "directly or indirectly" (without prejudice to the generality of the expression) means whether as principal or agent (either alone or jointly or in partnership with any other person, firm or company) or as a shareholder, member or holder of loan capital in any other company or being concerned or interested in any other person, firm or company and whether as a director, partner, consultant, employee or otherwise.
- F. Severability. Each of the provisions contained in this Exhibit A is and shall be construed as separate and severable and if one or more of such provisions is held to be against the public interest or unlawful or in any way an unreasonable restraint of trade or unenforceable in whole or in part for any reason, the remaining provisions of this Exhibit A or part thereof, as appropriate, shall continue to be in full force and effect.

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a)/15d-14(a),  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Dominic F. Silvester, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Enstar Group Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 8, 2017

/S/ DOMINIC F. SILVESTER

Dominic F. Silvester  
Chief Executive Officer

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a)/15d-14(a),  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Enstar Group Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 8, 2017

/S/ MARK SMITH  
Mark Smith  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Enstar Group Limited (the "Company") on Form 10-Q for the quarterly period ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dominic F. Silvester, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 8, 2017

/S/ DOMINIC F. SILVESTER  
Dominic F. Silvester  
Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Enstar Group Limited (the "Company") on Form 10-Q for the quarterly period ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Smith, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 8, 2017

/S/ MARK SMITH  
Mark Smith  
Chief Financial Officer

