
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

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

For the Quarterly Period Ended June 30, 2014

OR

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

For the Transition Period From _____ to _____

001-33289
Commission File Number

ENSTAR GROUP LIMITED

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction
of incorporation or organization)

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

P.O. Box HM 2267
Windsor Place, 3rd Floor
22 Queen Street
Hamilton HM JX
Bermuda
(Address of principal executive office, including zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of August 8, 2014, the registrant had outstanding 15,758,734 voting ordinary shares and 3,439,652 non-voting convertible ordinary shares, each par value \$1.00 per share.

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PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
As of June 30, 2014 and December 31, 2013

	June 30, 2014	December 31, 2013
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, trading, at fair value	\$ 234,211	\$ 281,002
Short-term investments, available-for-sale, at fair value (amortized cost: 2014—\$4,365; 2013—\$32,477)	4,370	32,504
Fixed maturities, trading, at fair value	4,152,318	3,381,719
Fixed maturities, held-to-maturity, at amortized cost	853,235	859,387
Fixed maturities, available-for-sale, at fair value (amortized cost: 2014—\$231,544; 2013—\$210,825)	234,853	213,860
Equities, trading, at fair value	147,142	182,033
Other investments, at fair value	716,303	569,293
Total investments	6,342,432	5,519,798
Cash and cash equivalents	1,028,155	643,841
Restricted cash and cash equivalents	514,458	397,657
Accrued interest receivable	42,084	38,864
Accounts receivable	115,688	75,351
Premiums receivable	415,942	111,748
Income taxes recoverable	9,480	5,481
Deferred tax assets	34,178	34,295
Prepaid reinsurance premiums	155,892	—
Reinsurance balances recoverable	1,527,221	1,363,819
Funds held by reinsured companies	146,828	237,789
Deferred acquisition costs	37,610	—
Goodwill and intangible assets	204,952	150,071
Other assets	43,176	41,441
TOTAL ASSETS	\$ 10,618,096	\$ 8,620,155
LIABILITIES		
Losses and loss adjustment expenses	\$ 5,124,991	\$ 4,219,905
Policy benefits for life and annuity contracts	1,241,856	1,273,100
Unearned premiums	475,995	70,698
Insurance and reinsurance balances payable	323,887	281,028
Accounts payable and accrued liabilities	103,837	97,103
Income taxes payable	28,247	23,721
Deferred tax liabilities	47,178	53,328
Loans payable	386,212	452,446
Other liabilities	74,326	70,444
TOTAL LIABILITIES	7,806,529	6,541,773
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NONCONTROLLING INTEREST	353,713	100,859
SHAREHOLDERS' EQUITY		
Share capital		
Authorized, issued and fully paid, par value \$1 each (authorized 2014: 156,000,000; 2013: 156,000,000)		
Ordinary shares (issued and outstanding 2014: 15,746,591; 2013: 13,802,706)	15,747	13,803
Non-voting convertible ordinary shares:		
Series A (issued 2014: 2,972,892; 2013: 2,972,892)	2,973	2,973
Series C (issued and outstanding 2014: 2,725,637; 2013: 2,725,637)	2,726	2,726
Series E (issued and outstanding 2014: 714,015; 2013: Nil)	714	—
Treasury shares at cost (Series A non-voting convertible ordinary shares 2014: 2,972,892; 2013: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	1,317,502	962,145
Accumulated other comprehensive income	18,870	13,978
Retained earnings	1,262,837	1,181,457
Total Enstar Group Limited Shareholders' Equity	2,199,810	1,755,523
Noncontrolling interest	258,044	222,000
TOTAL SHAREHOLDERS' EQUITY	2,457,854	1,977,523
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 10,618,096	\$ 8,620,155

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Three and Six Month Periods Ended June 30, 2014 and 2013

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(expressed in thousands of U.S. dollars, except share and per share data)			
INCOME				
Net premiums earned	\$ 216,916	\$ 75,596	\$ 278,574	\$ 107,257
Fees and commission income	7,509	2,960	14,507	5,407
Net investment income	33,649	27,252	57,997	45,215
Net realized and unrealized gains (losses)	38,411	(27,919)	72,984	2,201
	<u>296,485</u>	<u>77,889</u>	<u>424,062</u>	<u>160,080</u>
EXPENSES				
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities	59,749	(27,422)	47,699	(18,261)
Acquisition costs	50,379	9,632	63,540	12,000
Life and annuity policy benefits	27,732	25,562	54,541	26,322
Salaries and benefits	55,683	25,687	87,073	49,297
General and administrative expenses	37,177	20,002	59,427	37,948
Interest expense	3,529	3,091	7,263	5,526
Net foreign exchange (gains) losses	(525)	(8,403)	1,070	(3,321)
	<u>233,724</u>	<u>48,149</u>	<u>320,613</u>	<u>109,511</u>
EARNINGS BEFORE INCOME TAXES				
INCOME TAXES	62,761	29,740	103,449	50,569
	<u>(8,452)</u>	<u>(4,542)</u>	<u>(15,728)</u>	<u>(12,386)</u>
NET EARNINGS				
Less: Net earnings attributable to noncontrolling interest	54,309	25,198	87,721	38,183
	<u>(2,516)</u>	<u>(6,001)</u>	<u>(6,341)</u>	<u>(7,027)</u>
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	<u>\$ 51,793</u>	<u>\$ 19,197</u>	<u>\$ 81,380</u>	<u>\$ 31,156</u>
EARNINGS PER SHARE—BASIC				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	<u>\$ 2.78</u>	<u>\$ 1.16</u>	<u>\$ 4.62</u>	<u>\$ 1.89</u>
EARNINGS PER SHARE—DILUTED				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	<u>\$ 2.68</u>	<u>\$ 1.15</u>	<u>\$ 4.52</u>	<u>\$ 1.87</u>
Weighted average ordinary shares outstanding—basic	18,636,085	16,525,026	17,605,808	16,519,640
Weighted average ordinary shares outstanding—diluted	19,327,516	16,693,943	18,004,873	16,685,444

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Six Month Periods Ended June 30, 2014 and 2013

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

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Month Periods Ended June 30, 2014 and 2013

	Six Months Ended June 30,	
	2014	2013
	(expressed in thousands of U.S. dollars)	
Share Capital—Ordinary Shares		
Balance, beginning of period	\$ 13,803	\$ 13,752
Issue of shares	1,901	2
Share awards granted/vested	43	46
Balance, end of period	<u>\$ 15,747</u>	<u>\$ 13,800</u>
Share Capital—Series A Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	<u>\$ 2,973</u>	<u>\$ 2,973</u>
Share Capital—Series C Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	<u>\$ 2,726</u>	<u>\$ 2,726</u>
Share Capital—Series E Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	\$ —	\$ —
Series B Convertible Participating Non-Voting Perpetual Preferred Stock Converted	714	—
Balance, end of period	<u>\$ 714</u>	<u>\$ —</u>
Share Capital—Series B Convertible Participating Non-Voting Perpetual Preferred Stock		
Balance, beginning of period	\$ —	\$ —
Issue of stock	714	—
Converted to Series E Non-Voting Convertible Ordinary Shares	(714)	—
Balance, end of period	<u>\$ —</u>	<u>\$ —</u>
Treasury Shares		
Balance, beginning and end of period	<u>\$ (421,559)</u>	<u>\$ (421,559)</u>
Additional Paid-in Capital		
Balance, beginning of period	\$ 962,145	\$ 958,571
Issue of shares and warrants	353,832	319
Amortization of equity incentive plan	1,525	1,509
Balance, end of period	<u>\$ 1,317,502</u>	<u>\$ 960,399</u>
Accumulated Other Comprehensive Income Attributable to Enstar Group Limited		
Balance, beginning of period	\$ 13,978	\$ 24,439
Currency translation adjustment	14,264	27,822
Balance, beginning of period	4,791	(16,415)
Change in currency translation adjustment	—	—
Balance, end of period	<u>19,055</u>	<u>11,407</u>
Defined benefit pension liability	(2,249)	(7,180)
Balance, beginning of period	—	—
Change in defined benefit pension liability	—	—
Balance, end of period	<u>(2,249)</u>	<u>(7,180)</u>
Unrealized gain on investments		
Balance, beginning of period	1,963	3,797
Change in unrealized gains on investments, net of tax	101	(1,495)
Balance, end of period	<u>2,064</u>	<u>2,302</u>
Balance, end of period	<u>\$ 18,870</u>	<u>\$ 6,529</u>
Retained Earnings		
Balance, beginning of period	\$ 1,181,457	\$ 972,853
Net earnings attributable to Enstar Group Limited	81,380	31,156
Balance, end of period	<u>\$ 1,262,837</u>	<u>\$ 1,004,009</u>
Noncontrolling Interest		
Balance, beginning of period	\$ 222,000	\$ 221,478
Return of capital	(9,980)	—
Contribution of capital	35,699	—
Transfer to redeemable noncontrolling interest	1,028	—
Dividends paid	—	(1,740)
Net earnings attributable to noncontrolling interest*	7,460	7,027
Foreign currency translation adjustments*	1,993	(5,086)
Net movement in unrealized holding losses on fixed maturity investments*	(156)	(335)
Balance, end of period	<u>\$ 258,044</u>	<u>\$ 221,344</u>

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

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Month Periods Ended June 30, 2014 and 2013

	Six Months Ended June 30,	
	2014	2013
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	\$ 87,721	\$ 38,183
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Net realized and unrealized investment (gains) losses	(38,596)	27,881
Net realized and unrealized gains from other investments	(34,388)	(30,082)
Other items	158	2,175
Depreciation and amortization	2,019	505
Net amortization of premiums and accretion of discounts	28,144	23,261
Net movement of trading securities held on behalf of policyholders	(164)	2,096
Sales and maturities of trading securities	1,699,428	1,442,946
Purchases of trading securities	(1,188,935)	(1,527,521)
Changes in assets and liabilities:		
Reinsurance balances recoverable	240,415	60,437
Funds held by reinsured companies	101,571	190,305
Other assets	(48,924)	75,914
Losses and loss adjustment expenses	(363,957)	(203,471)
Policy benefits for life and annuity contracts	(31,244)	37,639
Insurance and reinsurance balances payable	(127,555)	(20,466)
Accounts payable and accrued liabilities	(10,906)	(49,419)
Other liabilities	9,410	(81,806)
Net cash flows provided by (used in) operating activities	<u>324,197</u>	<u>(11,423)</u>
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	\$ 37,540	\$ (283,960)
Sales and maturities of available-for-sale securities	78,967	160,143
Purchase of available-for-sale securities	(71,025)	—
Maturities of held-to-maturity securities	311	137
Movement in restricted cash and cash equivalents	(94,022)	(107,097)
Funding of other investments	(120,768)	(24,410)
Redemption of other investments	10,692	—
Other investing activities	(9)	298
Net cash flows used in investing activities	<u>(158,314)</u>	<u>(254,889)</u>
FINANCING ACTIVITIES:		
Distribution of capital to noncontrolling interest	(9,980)	—
Contribution by redeemable noncontrolling interest	254,635	—
Contribution by noncontrolling interest	35,699	—
Dividends paid to noncontrolling interest	—	(1,740)
Receipt of loans	70,000	227,000
Repayment of loans	(133,250)	—
Net cash flows provided by financing activities	<u>217,104</u>	<u>225,260</u>
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS	<u>1,327</u>	<u>3,059</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>384,314</u>	<u>(37,993)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>643,841</u>	<u>654,890</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 1,028,155</u>	<u>\$ 616,897</u>
Supplemental Cash Flow Information		
Net income taxes paid	\$ 17,018	\$ 16,424
Interest paid	\$ 10,236	\$ 3,817

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and December 31, 2013
(Tabular information expressed in thousands of U.S. dollars except share and per share data)
(unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation and Consolidation

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

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

- reserves for losses and loss adjustment expenses;
- policy benefits for life and annuity contracts;
- gross and net premiums written and net premiums earned;
- reinsurance balances recoverable, including the provisions for uncollectible amounts;
- other-than-temporary impairments in the carrying value of available-for-sale investment securities;
- valuation of certain other investments that are measured using significant unobservable inputs;
- valuation of goodwill and intangible assets; and
- fair value estimates associated with accounting for acquisitions.

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

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****1. SIGNIFICANT ACCOUNTING POLICIES—(Continued)*****New Accounting Standards Adopted in 2014***

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

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

2. ACQUISITIONS***Torus Insurance Holdings Limited***

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

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

FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII A Parallel Vehicle L.P. and FR Torus Co-Investment, L.P. (collectively, “First Reserve”) received 1,501,211 Voting Ordinary Shares, 714,015 Non-Voting Preferred Shares and cash consideration in the transaction. Following the approval of the Company’s shareholders of an amendment to its bye-laws on June 10, 2014, First

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****2. ACQUISITIONS—(Continued)**

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

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

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

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

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

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

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

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

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

2. ACQUISITIONS—(Continued)

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

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

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

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

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

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****2. ACQUISITIONS—(Continued)**

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

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

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

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

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

Supplemental Pro Forma Financial Information (Unaudited)

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

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

Changes in Ownership Interests relating to Holding Companies for our Active Underwriting Businesses***Atrium Employee Equity Awards***

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

ENSTAR GROUP LIMITED

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

2. ACQUISITIONS—(Continued)

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

Dowling Co-investments in Bayshore and Northshore

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

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

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

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

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

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

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****3. SIGNIFICANT NEW BUSINESS****2014*****Reciprocal of America***

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

Shelbourne RITC Transactions

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

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

4. INVESTMENTS

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

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

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

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ENSTAR GROUP LIMITED

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

4. INVESTMENTS—(Continued)

Trading

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

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

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

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

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

<u>As at June 30, 2014</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>
AAA	\$ 609,563	13.9%
AA	1,929,647	44.0%
A	1,310,870	29.9%
BBB or lower	514,384	11.7%
Not Rated	<u>22,065</u>	<u>0.5%</u>
	<u>\$4,386,529</u>	<u>100.00%</u>

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

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

4. INVESTMENTS—(Continued)

Held-to-maturity

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

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
As at June 30, 2014				
U.S. government and agency	\$ 19,736	\$ 13	\$ (578)	\$ 19,171
Non-U.S. government	45,943	188	(658)	45,473
Corporate	787,556	5,085	(12,286)	780,355
	<u>\$853,235</u>	<u>\$ 5,286</u>	<u>\$ (13,522)</u>	<u>\$844,999</u>
As at December 31, 2013				
U.S. government and agency	\$ 19,992	\$ 6	\$ (1,866)	\$ 18,132
Non-U.S. government	23,592	19	(1,284)	22,327
Corporate	815,803	105	(56,808)	759,100
	<u>\$859,387</u>	<u>\$ 130</u>	<u>\$ (59,958)</u>	<u>\$799,559</u>

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

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

	Amortized Cost	Fair Value	% of Total Fair Value
As at June 30, 2014			
Due in one year or less	\$ 22,341	\$ 22,389	2.6%
Due after one year through five years	84,700	84,960	10.1%
Due after five years through ten years	128,337	127,344	15.1%
Due after ten years	617,857	610,306	72.2%
	<u>\$853,235</u>	<u>\$844,999</u>	<u>100.0%</u>
As at December 31, 2013			
Due in one year or less	\$ 17,541	\$ 17,579	2.2%
Due after one year through five years	87,698	86,611	10.8%
Due after five years through ten years	133,102	126,541	15.8%
Due after ten years	621,046	568,828	71.2%
	<u>\$859,387</u>	<u>\$799,559</u>	<u>100.0%</u>

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

4. INVESTMENTS—(Continued)

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

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

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

Available-for-sale

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

<u>As at June 30, 2014</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Holding Gains</u>	<u>Gross Unrealized Holding Losses Non-OTTI</u>	<u>Fair Value</u>
			<u>Non-OTTI</u>	
U.S. government and agency	\$ 22,762	\$ 254	\$ (1)	\$ 23,015
Non-U.S. government	75,227	1,624	(62)	76,789
Corporate	88,186	1,382	(14)	89,554
Residential mortgage-backed	3,911	89	(23)	3,977
Asset-backed	45,823	76	(11)	45,888
	<u>\$235,909</u>	<u>\$ 3,425</u>	<u>\$ (111)</u>	<u>\$239,223</u>

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

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

4. INVESTMENTS—(Continued)

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

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

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

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

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

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

4. INVESTMENTS—(Continued)

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

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

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

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

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

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

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ENSTAR GROUP LIMITED

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

4. INVESTMENTS—(Continued)***Other-Than-Temporary Impairment Process***

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

Other Investments

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

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

Private equity funds

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

As of June 30, 2014 and December 31, 2013, the Company had \$215.2 million and \$161.2 million, respectively, of other investments recorded in private equity funds, which represented 2.7% and 2.5% of total investments, cash and cash equivalents and restricted cash and cash equivalents at June 30, 2014 and December 31, 2013, respectively. Due to a lag in the valuations reported by the managers, the Company records changes in the investment value with up to a three-month lag. Management regularly reviews and discusses fund performance with the Company's fund managers to corroborate the reasonableness of the reported net asset values and to assess whether any events have occurred within the lag period that would affect the valuation of the investments.

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****4. INVESTMENTS—(Continued)***Fixed income funds*

This class comprises a number of positions in diversified fixed income funds that are managed by third party managers. Underlying investments vary from high grade corporate bonds to non-investment grade senior secured loans and bonds, but are generally invested in liquid fixed income markets. These funds have regularly published prices. The funds have liquidity terms that vary from daily to monthly.

Fixed income hedge funds

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

Equity funds

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

Real estate debt fund

This class comprises a real estate debt fund that invests primarily in U.S. commercial real estate loans and securities. A redemption request for this fund can be made 10 days after the date of any monthly valuation; the fund states that it will make commercially reasonable efforts to redeem the investment within the next monthly period.

CLO equities

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

Other

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

Redemption restrictions on other investments

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

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ENSTAR GROUP LIMITED

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

4. INVESTMENTS—(Continued)

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

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

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

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

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

December 31, 2013	Total Fair Value	Gated/Side Pocket Investments	Investments without Gates or Side Pockets	Unfunded Commitments	Redemption Frequency
Private equity funds	\$161,229	\$ —	\$ 161,229	\$ 113,585	Not eligible
Fixed income funds	194,375	—	194,375	—	Daily to monthly
Fixed income hedge funds	68,157	3,150	65,007	—	Quarterly after lock-up periods expire
Equity funds	109,355	—	109,355	—	Bi-monthly
Real estate debt fund	32,113	—	32,113	—	Monthly
Other	4,064	—	4,064	655	Not eligible
	\$569,293	\$ 3,150	\$ 566,143	\$ 114,240	

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****4. INVESTMENTS—(Continued)*****Fair Value of Financial Instruments***

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

- Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2—Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company’s own judgment about assumptions that market participants might use.

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

Fixed Maturity Investments

The Company’s fixed maturity investments portfolio is managed by the Company’s Chief Investment Officer and outside investment advisors with oversight from the Company’s Investment Committee. Fair values for all securities in the fixed maturity investments portfolio are independently provided by the investment custodians, investment accounting service providers and investment managers, each of which utilize internationally recognized independent pricing services. Interactive Data Corporation is, however, the main pricing service utilized to estimate the fair value measurements for the Company’s fixed maturity investments. The Company records the unadjusted price provided by the investment custodians, investment accounting service providers or the investment managers and validates this price through a process that includes, but is not limited to: (i) comparison of prices against alternative pricing sources; (ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark); (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and (iv) comparing the price to the Company’s knowledge of the current investment market. The Company’s internal price validation procedures and review of fair value methodology documentation provided by independent pricing services have not historically resulted in adjustment in the prices obtained from the pricing service.

The independent pricing services used by the investment custodians, investment accounting service providers and investment managers obtain actual transaction prices for securities that have quoted prices in active markets. For determining the fair value of securities that are not actively traded, in general, pricing services use “matrix pricing” in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. In addition, pricing services use valuation

ENSTAR GROUP LIMITED**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****4. INVESTMENTS—(Continued)**

models, using observable data, such as an Option Adjusted Spread model, to develop prepayment and interest rate scenarios. The Option Adjusted Spread model is commonly used to estimate fair value for securities such as mortgage-backed and asset-backed securities.

The following describes the techniques generally used to determine the fair value of the Company's fixed maturity investments by asset class.

- U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, securities are classified within Level 3. As at June 30, 2014, the Company had one corporate security classified as Level 3.
- Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment speeds and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.
- Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment speeds and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****4. INVESTMENTS—(Continued)**

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

Equities

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

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

Other investments

The Company has ongoing due diligence processes with respect to funds in which it invests and their managers. These processes are designed to assist the Company in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, the Company obtains the audited financial statements for funds annually, and regularly reviews and discusses the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate net asset value is a permitted practical expedient. While reported net asset value is the primary input to the review, when the net asset value is deemed not to be indicative of fair value, the Company may incorporate adjustments to the reported net asset value (and not use the permitted practical expedient) on an investment by investment basis. These adjustments may involve significant management judgment. As at June 30, 2014, there were no significant adjustments made to the reported net asset value.

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

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

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

ENSTAR GROUP LIMITED**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****4. INVESTMENTS—(Continued)**

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

The Company measures the fair value of its direct investment in CLO equities based on valuations provided by the Company's external CLO equity manager or, if not available or if the investment does not involve an external CLO manager, by using an income approach based on certain observable and unobservable inputs. At June 30, 2014, the Company's investments in CLO equities were valued using valuations provided by the external CLO equity manager. The Company's CLO equities investments have been classified as Level 3 due to the use of unobservable inputs in the valuation and the limited number of relevant trades in secondary markets.

In providing valuations, the CLO equity manager uses observable and unobservable inputs. Of the significant unobservable market inputs used by the CLO equity manager, the default and loss severity rates involve the most judgment and create the most sensitivity. A significant increase (or decrease) in either of these significant inputs in isolation would result in lower (or higher) fair value estimates for direct investments in the Company's CLO equities and, in general, a change in default rate assumptions will be accompanied by a directionally similar change in loss severity rate assumptions. Collateral spreads and estimated maturity dates are less judgmental inputs because they are based on the historical average of actual spreads and the weighted average life of the current underlying portfolios, respectively. A significant increase (or decrease) in either of these significant inputs in isolation would result in higher (or lower) fair value estimates for direct investments in the Company's CLO equities. In general, these inputs have no significant interrelationship with each other or with default and loss severity rates.

On a quarterly basis, the Company receives the valuation from the external CLO manager and then reviews the underlying cash flows and key assumptions used by the manager. The Company reviews and updates the significant unobservable inputs based on information obtained from secondary markets. These inputs are the responsibility of the Company and the Company assesses the reasonableness of the inputs (and if necessary, updates the inputs) through communicating with industry participants, monitoring of the transactions in which the Company participates (for example, to evaluate default and loss severity rate trends), and reviewing market conditions, historical results, and emerging trends that may impact future cash flows.

If valuations from the external CLO equity manager were not available or if the investment does not involve an external CLO manager, the Company would use an income approach based on certain observable and unobservable inputs to value these investments. Where an income approach is followed, the valuation is based on available trade information, such as expected cash flows and market assumptions on default and loss severity rates. Other inputs used in the valuation process include asset spreads, loan prepayment speeds, collateral spreads and estimated maturity dates.

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

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

4. INVESTMENTS—(Continued)

Fair Value Measurements

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

	June 30, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S. government and agency	\$ —	\$ 717,700	\$ —	\$ 717,700
Non-U.S. government	—	550,573	—	550,573
Corporate	—	2,343,149	610	2,343,759
Municipal	—	32,593	—	32,593
Residential mortgage-backed	—	361,885	—	361,885
Commercial mortgage-backed	—	161,822	—	161,822
Asset-backed	—	457,420	—	457,420
Equities—U.S.	79,667	5,288	4,875	89,830
Equities—International	11,762	45,550	—	57,312
Other investments	—	388,139	328,164	716,303
Total investments	\$ 91,429	\$5,064,119	\$ 333,649	\$5,489,197

	December 31, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S. government and agency	\$ —	\$ 468,289	\$ —	\$ 468,289
Non-U.S. government	—	562,516	—	562,516
Corporate	—	2,200,970	609	2,201,579
Municipal	—	41,034	—	41,034
Residential mortgage-backed	—	235,964	—	235,964
Commercial mortgage-backed	—	114,637	—	114,637
Asset-backed	—	285,066	—	285,066
Equities—U.S.	97,470	13,090	4,725	115,285
Equities—International	35,677	31,071	—	66,748
Other investments	—	303,724	265,569	569,293
Total investments	\$ 133,147	\$4,256,361	\$ 270,903	\$4,660,411

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

4. INVESTMENTS—(Continued)

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

	June 30, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S. government and agency	\$ —	\$ 19,171	\$ —	\$ 19,171
Non-U.S. government	—	45,473	—	45,473
Corporate	—	780,355	—	780,355
Total investments	<u>\$ —</u>	<u>\$ 844,999</u>	<u>\$ —</u>	<u>\$844,999</u>

	December 31, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S. government and agency	\$ —	\$ 18,132	\$ —	\$ 18,132
Non-U.S. government	—	22,327	—	22,327
Corporate	—	759,100	—	759,100
Total investments	<u>\$ —</u>	<u>\$ 799,559</u>	<u>\$ —</u>	<u>\$799,559</u>

During 2014 and 2013, the Company had no transfers between Levels 1 and 2.

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three months ended June 30, 2014:

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

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

4. INVESTMENTS—(Continued)

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

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

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

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

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the six months ended June 30, 2014:

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of January 1, 2014	\$ 609	\$ 265,569	\$ 4,725	\$270,903
Purchases	—	51,753	—	51,753
Sales	—	(10,692)	—	(10,692)
Total realized and unrealized gains through earnings	1	21,534	150	21,685
Net transfers into and/or (out of) Level 3	—	—	—	—
Level 3 investments as of June 30, 2014	<u>\$ 610</u>	<u>\$ 328,164</u>	<u>\$ 4,875</u>	<u>\$333,649</u>

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

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

4. INVESTMENTS—(Continued)

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

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

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

Net Realized and Unrealized Gains

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Gross realized gains on available-for-sale securities	\$ 253	\$ 345	\$ 279	\$ 410
Gross realized losses on available-for-sale securities	—	(114)	(145)	(131)
Net realized gains on trading securities	12,010	3,581	17,927	9,590
Net unrealized gains (losses) on trading securities	8,757	(42,882)	20,535	(37,750)
Net realized and unrealized gains on other investments	<u>17,391</u>	<u>11,151</u>	<u>34,388</u>	<u>30,082</u>
Net realized and unrealized gains (losses)	<u>\$ 38,411</u>	<u>\$ (27,919)</u>	<u>\$ 72,984</u>	<u>\$ 2,201</u>
Proceeds from sales and maturities of available-for-sale securities	<u>\$ 26,179</u>	<u>\$ 100,512</u>	<u>\$ 78,967</u>	<u>\$ 160,143</u>

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

4. INVESTMENTS—(Continued)

Net Investment Income

Major categories of net investment income are summarized as follows:

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

Restricted Assets

The Company is required to maintain investments and cash and cash equivalents on deposit with various regulatory authorities to support its insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. The Company also utilizes trust accounts to collateralize business with its insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trusts as collateral are primarily highly rated fixed maturity securities. The carrying value of the Company's restricted assets, including restricted cash of \$514.5 million and \$397.7 million, as of June 30, 2014 and December 31, 2013 was as follows:

	June 30, 2014	December 31, 2013
Collateral in trust for third party agreements	\$2,623,281	\$ 2,002,374
Assets on deposit with regulatory authorities	660,690	608,940
Collateral for secured letter of credit facility	327,722	310,938
	<u>\$3,611,693</u>	<u>\$ 2,922,252</u>

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

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

5. REINSURANCE BALANCES RECOVERABLE

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

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

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

On an annual basis, both Torus and Atrium purchase a tailored outwards reinsurance program designed to manage their risk profiles. The majority of Atrium's total third party reinsurance cover is with Lloyd's Syndicates or other highly rated reinsurers. The majority of Torus' total third party reinsurance cover is with highly rated reinsurers or is collateralized by letters of credit.

The fair value adjustments, determined on acquisition of insurance and reinsurance subsidiaries, are based on the estimated timing of loss and loss adjustment expense recoveries and an assumed interest rate equivalent to a risk free rate for securities with similar duration to the reinsurance recoverables acquired plus a spread to reflect credit risk, and are amortized over the estimated recovery period, as adjusted for accelerations in timing of payments as a result of commutation settlements.

As of June 30, 2014 and December 31, 2013, the Company had, excluding reinsurance recoverables related to its life and annuities segment, reinsurance balances recoverable of \$1.50 billion and \$1.33 billion, respectively. The increase of \$165.6 million in reinsurance balances recoverable was primarily a result of the Torus acquisition, partially offset by commutations and cash collections made during the period ended June 30, 2014.

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

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****5. REINSURANCE BALANCES RECOVERABLE—(Continued)**

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

Top Ten Reinsurers

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

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

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

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

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

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

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

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

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

	Three Months Ended June 30,					
	2014			2013	Non-life Run-off	Total
Net losses paid	\$ 116,575	\$ 12,008	\$ 14,249	\$ 142,832	\$ 43,668	\$ 43,668
Net change in case and LAE reserves	(78,421)	2,241	42,264	(33,916)	(64,033)	(64,033)
Net change in IBNR reserves	(54,730)	2,329	23,727	(28,674)	7,369	7,369
(Reduction) increase in estimates of net ultimate losses	(16,576)	16,578	80,240	80,242	(12,996)	(12,996)
Paid loss recoveries on bad debt provisions	(11,206)	—	—	(11,206)	—	—
(Reduction) increase in provisions for unallocated loss adjustment expense liabilities	(12,874)	33	—	(12,841)	(16,795)	(16,795)
Amortization of fair value adjustments	3,454	—	100	3,554	2,369	2,369
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	<u>\$ (37,202)</u>	<u>\$ 16,611</u>	<u>\$ 80,340</u>	<u>\$ 59,749</u>	<u>\$ (27,422)</u>	<u>\$ (27,422)</u>

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES—(Continued)

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

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ENSTAR GROUP LIMITED

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES—(Continued)

Non-Life Run-off Segment

Three Months Ended June 30, 2014 and 2013

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

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

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

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES—(Continued)

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

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

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

Three Months Ended June 30, 2014

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

ENSTAR GROUP LIMITED

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES—(Continued)

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

- (i) the Company's quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately \$6.8 million;
- (ii) a reduction in IBNR reserves of \$10.0 million primarily as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company's actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in Lloyd's Syndicate 2008. The prior period estimate of aggregate IBNR liabilities was reduced as a result of the continued favorable trend of loss development compared to prior forecasts; and
- (iii) favorable claims settlements during the three months ended June 30, 2014 resulting in a reduction in estimates of net ultimate losses of approximately \$12.8 million.

Three Months Ended June 30, 2013

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

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

- (i) the Company's review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately \$8.3 million;
- (ii) net favorable incurred loss development of \$25.0 million (excluding the impact of redundant case reserves of \$8.3 million) which included the settlement of net ceded case reserves of \$26.2 million (excluding ceded IBNR recoverable) for net paid receipts of \$74.3 million relating to the settlement of five commutations and policy buy-backs of assumed and ceded exposures including the commutation of one of the Company's top ten ceded reinsurance balances recoverable; and
- (iii) a reduction in IBNR reserves of \$20.2 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company's actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in one of its Bermuda-based reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for this subsidiary was reduced as a result of the favorable trend of loss development during 2013 compared to prior forecasts.

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ENSTAR GROUP LIMITED

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES—(Continued)

Six Months Ended June 30, 2014 and 2013

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

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

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

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ENSTAR GROUP LIMITED

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES—(Continued)

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

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

Six Months Ended June 30, 2014

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

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

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

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ENSTAR GROUP LIMITED

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES—(Continued)

- (ii) a reduction in IBNR reserves of \$10.0 million primarily as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company's actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in Lloyd's Syndicate 2008. The prior period estimate of aggregate IBNR liabilities was reduced as a result of the continued favorable trend of loss development compared to prior forecasts; and
- (iii) favorable claims settlements during the six months ended June 30, 2014 resulting in a reduction in estimates of net ultimate losses of approximately \$19.5 million.

Six Months Ended June 30, 2013

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

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

- (i) the Company's quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately \$16.6 million;
- (ii) net incurred loss development of \$1.0 million (excluding the impact of redundant case reserves of \$16.6 million), which included the settlement of net ceded case reserves of \$26.2 million (excluding ceded IBNR recoverable) for net paid receipts of \$74.3 million relating to the settlement of five commutations and policy buy-backs of assumed and ceded exposures including the commutation of one of the Company's top ten ceded reinsurance balances recoverable; and
- (iii) a reduction in IBNR reserves of \$20.2 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company's actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in one of its Bermuda-based reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for this subsidiary was reduced as a result of the favorable trend of loss development during 2013 compared to prior forecasts.

Atrium and Torus Segments

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

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES—(Continued)

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

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

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES—(Continued)

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

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

6. LOSSES AND LOSS ADJUSTMENT EXPENSES—(Continued)

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

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

	Six Months Ended June 30, 2014					
	Atrium			Torus		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	\$ 15,027	\$ 9,816	\$ 24,843	\$ 11,398	\$ 2,851	\$14,249
Net change in case and LAE reserves	(7,842)	10,858	3,016	34,414	7,850	42,264
Net change in IBNR reserves	(13,420)	19,218	5,798	(45,812)	69,539	23,727
(Reduction) increase in estimates of net ultimate losses	(6,235)	39,892	33,657	—	80,240	80,240
(Reduction) increase in provisions for unallocated loss adjustment expense liabilities	(241)	326	85	—	—	—
Amortization of fair value adjustments	—	—	—	—	100	100
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	\$ (6,476)	\$ 40,218	\$ 33,742	\$ —	\$80,340	\$80,340

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

7. POLICY BENEFITS FOR LIFE AND ANNUITY CONTRACTS

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

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

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

8. PREMIUMS WRITTEN AND EARNED

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2014		2013		2014		2013	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
<u>Non-life run-off</u>								
Gross	\$ 6,720	\$ 22,406	\$ 4,444	\$ 45,414	\$ 8,039	\$ 25,174	\$ 16,542	\$ 79,550
Ceded	(904)	(5,322)	(3,274)	(4,198)	(1,180)	(5,563)	(5,664)	(7,414)
Net	<u>\$ 5,816</u>	<u>\$ 17,084</u>	<u>\$ 1,170</u>	<u>\$ 41,216</u>	<u>\$ 6,859</u>	<u>\$ 19,611</u>	<u>\$ 10,878</u>	<u>\$ 72,136</u>
<u>Atrium</u>								
Gross	\$ 39,857	\$ 38,142	\$ —	\$ —	\$ 87,434	\$ 76,299	\$ —	\$ —
Ceded	(3,868)	(4,145)	—	—	(9,720)	(9,663)	—	—
Net	<u>\$ 35,989</u>	<u>\$ 33,997</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 77,714</u>	<u>\$ 66,636</u>	<u>\$ —</u>	<u>\$ —</u>
<u>Torus</u>								
Gross	\$170,646	\$185,753	\$ —	\$ —	\$170,646	\$185,753	\$ —	\$ —
Ceded	(40,205)	(47,514)	—	—	(40,205)	(47,514)	—	—
Net	<u>\$130,441</u>	<u>\$138,239</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$130,441</u>	<u>\$138,239</u>	<u>\$ —</u>	<u>\$ —</u>
<u>Life and annuities</u>								
Life	\$ 27,189	\$ 27,596	\$ 32,993	\$ 34,380	\$ 53,185	\$ 54,088	\$ 33,734	\$ 35,121
Total	\$199,435	\$216,916	\$ 34,163	\$ 75,596	\$268,199	\$278,574	\$ 44,612	\$107,257

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****8. PREMIUMS WRITTEN AND EARNED—(Continued)*****Atrium***

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

Torus

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

Life and annuities

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

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

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

9. RETROSPECTIVELY RATED CONTRACTS

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

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

10. GOODWILL AND INTANGIBLE ASSETS

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

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

Intangible assets with a definite life include:

- (i) Fair value adjustments ("FVA") relate to outstanding losses and loss adjustment expenses, policy benefits for life and annuity contracts, unearned premiums and reinsurance recoverables and are included as a component of each balance sheet item. FVA are amortized in proportion to future premiums for policy benefits for life and annuity contracts, over the estimated payout or recovery period for outstanding losses and loss adjustment expenses and reinsurance recoverables and as the unearned premiums expire for business in-force as of the acquisition date; and
- (ii) Other intangible assets relate to the values associated with the distribution channel, technology and brand related to the Company's acquisitions of Atrium and Torus. These assets are amortized on a straight-line basis over a period ranging from four to fifteen years.

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

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

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

10. GOODWILL AND INTANGIBLE ASSETS—(Continued)

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

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

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

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

11. LOANS PAYABLE

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

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

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

EGL Revolving Credit Facility

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

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

Clarendon Facility

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

SeaBright Facility

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

12. REDEEMABLE NONCONTROLLING INTEREST

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

	As at June 30, 2014	
	Bayshore	Northshore
Trident	<u>39.32%</u>	<u>38.97%</u>

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****12. REDEEMABLE NONCONTROLLING INTEREST—(Continued)**

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

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

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

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

13. SHARE CAPITAL

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

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

ENSTAR GROUP LIMITED

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

13. SHARE CAPITAL—(Continued)

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

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

The Series E Non-Voting Ordinary Shares:

- have all of the economic rights (including dividend rights) attaching to Voting Ordinary Shares but are non-voting except in certain limited circumstances;
- will automatically convert at a one-for-one exchange ratio (subject to adjustment for share splits, dividends, recapitalizations, consolidations or similar transactions) into Voting Ordinary Shares if the registered holder transfers them in a widely dispersed offering;
- may only vote on matters as required under Bermuda law, and if required to vote under Bermuda law in connection with any merger, consolidation or amalgamation of the Company, would have aggregate voting power not to exceed 0.01% of the aggregate voting power of the Company's issued share capital; and
- require the registered holders' written consent in order to vary the rights of the shares in a significant and adverse manner.

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

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

14. EARNINGS PER SHARE

The following table sets forth the comparison of basic and diluted earnings per share for the three and six months ended June 30, 2014 and 2013:

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

15. EMPLOYEE BENEFITS

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

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

15. EMPLOYEE BENEFITS—(Continued)

2006 Equity Incentive Plan

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

	Six Months Ended June 30,	
	2014	2013
	Weighted Average Fair Value of the Award	Weighted Average Fair Value of the Award
Nonvested—January 1	115,159	\$ 15,997
Granted	27,418	3,666
Vested	<u>(45,559)</u>	<u>6,091</u>
Nonvested—June 30	<u>97,018</u>	<u>\$ 14,624</u>
	<u><u>97,018</u></u>	<u><u>\$ 14,624</u></u>
	<u><u>115,159</u></u>	<u><u>\$ 15,314</u></u>

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

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

Cash-Settled Stock Appreciation Rights

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

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

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

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

15. EMPLOYEE BENEFITS—(Continued)

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

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

The following table summarizes SARs activity:

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

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

2011-2015 Annual Incentive Compensation Program

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

Enstar Group Limited Employee Share Purchase Plan

For both the three and six months ended June 30, 2014 and 2013, compensation costs of less than \$0.1 million and \$0.2 million, respectively, relating to the shares issued under the Amended and Restated Enstar Group Limited Employee Share Purchase Plan ("Share Plan") were recognized in the Company's statement of earnings. For the six months ended June 30, 2014 and 2013, 3,006 and 2,540 shares, respectively, have been issued to employees under the Share Plan.

Deferred Compensation and Ordinary Share Plan for Non-Employee Directors

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

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ENSTAR GROUP LIMITED

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

15. EMPLOYEE BENEFITS—(Continued)

Pension Plan

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

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

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

16. TAXATION

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

Earnings before income taxes includes the following components:

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Current:				
Domestic (Bermuda)	\$ —	\$ —	\$ —	\$ —
Foreign	9,715	51	19,982	14,330
	<u>9,715</u>	<u>51</u>	<u>19,982</u>	<u>14,330</u>
Deferred:				
Domestic (Bermuda)	—	—	—	—
Foreign	(1,263)	4,491	(4,254)	(1,944)
	<u>(1,263)</u>	<u>4,491</u>	<u>(4,254)</u>	<u>(1,944)</u>
Total tax expense	\$ 8,452	\$ 4,542	\$ 15,728	\$ 12,386

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ENSTAR GROUP LIMITED

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

16. TAXATION—(Continued)

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

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

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

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

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

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

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

The Company's operating subsidiaries in specific countries may be subject to audit by various tax authorities and may have different statutes of limitations expiration dates. With limited exceptions, the Company's major subsidiaries that operate in the United States, United Kingdom and Australia are no longer subject to tax examinations for years before 2010, 2010 and 2007, respectively.

[Table of Contents](#)**ENSTAR GROUP LIMITED****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****17. RELATED PARTY TRANSACTIONS*****Stone Point Capital LLC***

Following several private transactions occurring from May 2012 to July 2012, Trident acquired 1,350,000 of the Company's voting ordinary shares (which now constitutes approximately 8.5% of the Company's outstanding voting ordinary shares). On November 6, 2013, the Company appointed James D. Carey to its Board of Directors. Mr. Carey is the sole member of an entity that is one of four general partners of the entities serving as general partners for Trident, is a member of the investment committees of such general partners, and is a member and senior principal of Stone Point Capital LLC, the manager of the Trident funds.

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

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

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

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

Goldman Sachs & Co.

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

ENSTAR GROUP LIMITED**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****17. RELATED PARTY TRANSACTIONS—(Continued)**

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

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

18. COMMITMENTS AND CONTINGENCIES***Concentration of Credit Risk***

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

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

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

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ENSTAR GROUP LIMITED

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

18. COMMITMENTS AND CONTINGENCIES—(Continued)

Leases

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

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

Investments

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

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

Guarantees

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

Acquisitions and Significant New Business

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

Legal Proceedings

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

ENSTAR GROUP LIMITED**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****19. SEGMENT INFORMATION**

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

- (i) *Non-life run-off*—The Company's non-life run-off segment comprises the operations and financial results of our subsidiaries that are running off their property and casualty and other non-life lines of business together with the run-off businesses of Arden and Torus. It also includes the Company's smaller management business, in which it manages the run-off portfolios of third parties through the Company's service companies.
- (ii) *Atrium*—Atrium is an underwriting business at Lloyd's of London, which manages Syndicate 609 and provides approximately 25% of the syndicate's underwriting capacity and capital (with the balance provided by traditional Lloyd's Names). Atrium specializes in accident and health, aviation, marine, property, non-marine property, professional liability, property and casualty binding authorities, reinsurance, upstream energy, war and terrorism insurance, cargo and fine art. Arden is a Bermuda-based reinsurance company that provides reinsurance to Atrium (through an approximately 65% quota share reinsurance arrangement with Atrium 5 Ltd, an Atrium subsidiary) and is currently in the process of running off certain other third-party business. Results related to Arden's run-off business are included within the Company's non-life run-off segment.
- (iii) *Torus*—Torus is a global specialty insurer that offers a diverse range of property, casualty and specialty insurance through its operations in the U.K., Continental Europe, the U.S. and Bermuda. The activities of this segment comprise the active underwriting business of Torus.
- (iv) *Life and annuities*—The Company's life and annuities segment comprises the operations and financial results of its subsidiaries that are operating its closed-block of life and annuity business, which primarily consists of the companies it acquired in the Pavonia acquisition on March 31, 2013.

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

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

19. SEGMENT INFORMATION—(Continued)

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

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

The Company's total assets by segment were:

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

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

	Three Months Ended June 30, 2014					
	Non-life run-off	Atrium	Torus	Life and annuities	Eliminations	Consolidated
INCOME						
Net premiums earned	\$ 17,084	\$33,997	\$138,239	\$ 27,596	\$ —	\$ 216,916
Fees and commission income	12,218	5,474	—	13	(10,196)	7,509
Net investment income	22,267	497	1,365	9,952	(432)	33,649
Net realized and unrealized gains	30,926	4	3,218	4,263	—	38,411
	<u>82,495</u>	<u>39,972</u>	<u>142,822</u>	<u>41,824</u>	<u>(10,628)</u>	<u>296,485</u>
EXPENSES						
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	(37,202)	16,611	80,340	—	—	59,749
Acquisition costs	5,652	11,167	29,602	3,958	—	50,379
Life and annuity policy benefits	—	—	—	27,732	—	27,732
Salaries and benefits	31,463	4,226	17,600	2,394	—	55,683
General and administrative expenses	15,579	3,990	25,043	2,761	(10,196)	37,177
Interest expense	2,325	1,204	—	432	(432)	3,529
Net foreign exchange (gains) losses	(632)	(435)	620	(78)	—	(525)
	<u>17,185</u>	<u>36,763</u>	<u>153,205</u>	<u>37,199</u>	<u>(10,628)</u>	<u>233,724</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	65,310	3,209	(10,383)	4,625	—	62,761
INCOME TAXES	(5,223)	(1,280)	(394)	(1,555)	—	(8,452)
NET EARNINGS (LOSS)	60,087	1,929	(10,777)	3,070	—	54,309
Less: Net earnings (loss) attributable to noncontrolling interest	(5,574)	(1,293)	4,351	—	—	(2,516)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	<u>\$ 54,513</u>	<u>\$ 636</u>	<u>\$ (6,426)</u>	<u>\$ 3,070</u>	<u>\$ —</u>	<u>\$ 51,793</u>

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

19. SEGMENT INFORMATION—(Continued)

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

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

19. SEGMENT INFORMATION—(Continued)

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

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

19. SEGMENT INFORMATION—(Continued)

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Enstar Group Limited:

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

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

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

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

/s/ KPMG Audit Limited

Hamilton, Bermuda
August 11, 2014

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Table of Contents:**

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The following discussion and analysis of our financial condition and results of operations for the three and six months ended June 30, 2014 and 2013 should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto and the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Business Overview

Enstar Group Limited, or Enstar, is a Bermuda-based holding company that was formed in 2001 and became publicly traded in 2007. We are listed on the NASDAQ Global Select Market under the ticker symbol "ESGR." Enstar and our operating subsidiaries acquire and manage diversified insurance businesses through a network of service companies in Bermuda, the United States, the United Kingdom, Continental Europe, Australia, and other international locations.

Our primary corporate objective is growing our net book value per share. We believe 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 on our active underwriting strategies.

Our core focus is acquiring and managing insurance and reinsurance companies in run-off and portfolios of insurance and reinsurance business in run-off, and providing management, consulting and other services to the insurance and reinsurance industry. Since our formation, we have completed the acquisition of over 60 insurance and reinsurance companies and portfolios of insurance and reinsurance business and are now administering those businesses. This includes 13 Reinsurance to Close, or "RITC" transactions, with Lloyd's of London insurance and reinsurance syndicates in run-off, whereby the portfolio of run-off liabilities is transferred from one Lloyd's syndicate to another.

The substantial majority of our acquisitions have 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. In recent years, we

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diversified our portfolio of run-off businesses to include closed life and annuities, primarily through our acquisition of the U.S. life and annuities operations of HSBC Holdings plc (which we now refer to as Pavonia). In addition to portfolio diversification, we believe our life and annuities business has the potential to provide us with a more regular earnings and cash flow stream, which may, to a degree, counter some of the volatility inherent in our core non-life run-off business over the long term.

In 2013, we entered the active underwriting business through our acquisitions of approximately 60% interests in Atrium Underwriting Group Limited (or Atrium) on November 25, 2013 and Arden Reinsurance Company Ltd (or Arden) on September 9, 2013. Atrium's wholly-owned subsidiary, Atrium Underwriters Ltd, manages and underwrites specialist insurance and reinsurance business for Lloyd's Syndicate 609. Atrium's wholly-owned subsidiary, Atrium 5 Ltd, provides approximately 25% of the underwriting capacity and capital to Syndicate 609, with the balance provided by traditional Lloyd's Names. Arden provides reinsurance to Atrium 5 Ltd. through an approximate 65% quota share reinsurance arrangement, and is currently in the process of running off certain other portfolios of run-off business.

On April 1, 2014, we acquired Torus Insurance Holdings Limited (or Torus). Torus is an A- rated global specialty insurer with multiple global underwriting platforms, including Lloyd's Syndicate 1301. Torus offers a diverse range of property, casualty and specialty insurance through its operations in the U.K., Continental Europe, the U.S. and Bermuda. Prior to acquisition, Torus ceased underwriting certain lines of business in order to focus on core property, casualty and specialty lines. The results of the discontinued lines of business which were placed into run-off are included within our non-life run-off segment. During the three months ended June 30, 2014, a Fitzwilliam Insurance Limited segregated cell, of which Enstar owns 60% and Trident owns 40%, entered into a 100% quota share reinsurance of Torus' non-life run-off reserves with effect from January 1, 2014.

We believe that Torus and Atrium, our active underwriting businesses, provide an additional earnings stream, and also enhance our ability to compete for non-life run-off and other acquisition targets by providing opportunities for us to offer, through Torus, renewal rights or loss portfolio reinsurance transactions in connection with such acquisitions, which may be attractive to certain vendors or may present alternative ways in which proposed transactions can be structured.

Overall, Enstar has four segments of business that are each managed, operated and reported on differently: (i) Non-life run-off; (ii) Atrium; (iii) Torus; and (iv) Life and annuities.

The table below summarizes the total number of employees we had as at June 30, 2014 and December 31, 2013 by operating segment:

	<u>2014</u>	<u>2013</u>
Non-life run-off	515	529
Atrium	156	161
Torus	498	—
Life and annuities	49	49
Total	<u>1,218</u>	<u>739</u>

Key Performance Indicator

Our primary corporate objective is growing our net book value per share. We increased our book value per share on a fully diluted basis by \$8.74 from \$105.20 per share, as at December 31, 2013, to \$113.94, as at June 30, 2014. The increase was primarily due to the issuance of voting and non-voting shares with a value of approximately \$356.1 million to certain shareholders of Torus upon completion of the Torus acquisition, as well as net earnings for the six months ended June 30, 2014.

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Acquisitions

Torus Insurance Holdings Limited

On April 1, 2014, Kenmare Holdings Ltd. (or Kenmare), our wholly-owned subsidiary, together with Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P., which are managed by Stone Point Capital LLC (or collectively, Trident), completed the acquisition of Torus. At closing, Torus became directly owned by Bayshore Holdings Ltd. (or Bayshore), which was 60% owned by Kenmare and 40% owned by Trident.

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

FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII A Parallel Vehicle L.P. and FR Torus Co-Investment, L.P. (or collectively, First Reserve) received 1,501,211 Voting Ordinary Shares, 714,015 Non-Voting Preferred Shares and cash consideration in the transaction. Following the approval of our shareholders of an amendment to our bye-laws on June 10, 2014, First Reserve's Non-Voting Preferred Shares converted on a share-for-share basis into 714,015 shares of newly created Series E Non-Voting Convertible Ordinary Shares, or the Series E Non-Voting Ordinary Shares. Corsair Specialty Investors, L.P. (or Corsair) received 397,115 Voting Ordinary Shares and cash consideration in the transaction. The remaining Torus shareholders received all cash. As a result of the amalgamation, First Reserve now owns approximately 9.5% and 11.5%, respectively, of our Voting Ordinary Shares and outstanding share capital.

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

In satisfaction of certain of our obligations under the Registration Rights Agreement we entered into with First Reserve and Corsair at the closing of the Amalgamation, we filed a resale shelf registration statement with the SEC on April 29, 2014 with respect to the Voting Ordinary Shares (including the Voting Ordinary Shares into which the Series E Non-Voting Ordinary Shares may convert) that we issued pursuant to the amalgamation.

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

Atrium Employee Equity Awards

On April 17, 2014, Northshore Holdings Ltd. (or Northshore), the parent company of Atrium and Arden, implemented long-term incentive plans that awarded time-based restricted shares of Northshore to certain Atrium employees. These equity awards will have the effect of modestly reducing

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Kenmare's equity interest in Northshore (as well as Trident's equity interest) over the course of the vesting periods as Atrium employees acquire shares. Shares generally vest over two or three years, although certain awards began vesting in 2014.

Dowling Co-investments in Bayshore and Northshore Holdings Ltd.

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

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

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

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

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

Significant New Business

Reciprocal of America

On July 6, 2012, our wholly-owned subsidiary, Providence Washington Insurance Company, entered into a definitive loss portfolio transfer reinsurance agreement with Reciprocal of America (in Receivership) and its Deputy Receiver relating to a portfolio of workers' compensation business. The

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estimated total liabilities to be assumed are approximately \$164.5 million, with an equivalent amount of assets to be received as consideration. Completion of the transaction is conditioned upon, among other things, regulatory approvals and satisfaction of customary closing conditions. The transaction is expected to close by the end of 2014.

Shelbourne RITC Transactions

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

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

Consolidated Results of Operations – For the Three and Six Months Ended June 30, 2014 and 2013

The following table sets forth our selected unaudited condensed consolidated statement of earnings data for each of the periods indicated.

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

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Certain reclassifications have been made to the 2013 comparatives of net increase (reduction) in ultimate losses and loss adjustment expense liabilities, acquisition costs and life and annuity policy benefits to conform to current year presentation. These reclassifications had no impact on net earnings previously reported.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(in thousands of U.S. dollars)				
Segment split of earnings (losses) attributable to Enstar Group Limited:				
Non-life run-off	\$ 54,513	\$ 21,016	\$ 80,113	\$ 34,900
Atrium	636	—	1,133	—
Torus	(6,426)	—	(6,968)	—
Life and annuities	3,070	(1,819)	7,102	(3,744)
Net earnings attributable to Enstar Group Limited	<u>\$ 51,793</u>	<u>\$ 19,197</u>	<u>\$ 81,380</u>	<u>\$ 31,156</u>

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related footnotes. Some of the information contained in this discussion and analysis 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 in "Risk Factors" included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 and in Item 1A of Part II of this Quarterly Report on Form 10-Q.

We reported consolidated net earnings, before net earnings attributable to noncontrolling interest, of approximately \$54.3 million and \$87.7 million for the three and six months ended June 30, 2014, respectively, as compared to \$25.2 million and \$38.2 million for the same periods in 2013. Our comparative results were impacted by our 2013 and 2014 acquisitions, among other factors. Subsequent to June 30, 2013, we completed the acquisitions of Arden (on September 9, 2013), Atrium (on November 25, 2013) and Torus (on April 1, 2014). Our comparative results for the six months ended June 30, 2014 were also impacted by our March 31, 2013 acquisition of Pavonia.

The change in consolidated net earnings for the three and six month periods was attributable primarily to the following:

Net premiums earned – Combined net premiums earned for our four operating segments were \$216.9 million and \$278.6 million for the three and six months ended June 30, 2014, respectively, as compared to \$75.6 million and \$107.3 million for the same periods in 2013. The significant increase in 2014 was due primarily to the net premiums earned by Torus and Atrium, partially offset by a reduction in net premiums earned by SeaBright during the three months ended June 30, 2014, as described in greater detail in the segment discussion below.

Net investment income – Net investment income was \$33.6 million and \$58.0 million for the three and six months ended June 30, 2014, respectively, as compared to \$27.3 million and \$45.2 million for the same periods in 2013. The increase in each of the periods during 2014 was largely attributable to the net investment income earned on a larger base of cash and fixed maturity investments as a result of the Arden, Atrium and Torus transactions (as well as the Pavonia transaction with respect to the increase during the six month period), although this was partially offset by lower reinvestment yields on new purchases of fixed maturity investments.

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Net realized and unrealized gains (losses) – Net realized and unrealized gains (losses) were \$38.4 million and \$73.0 million for the three and six months ended June 30, 2014, respectively, as compared to \$(27.9) million and \$2.2 million for the same periods in 2013. The increase in net realized and unrealized gains between the 2014 and 2013 periods was attributable primarily to an increase in realized and unrealized gains on fixed income securities in each of our operating segments due primarily to marginal decreases in U.S. investment yields for 2014 (particularly in longer dated fixed maturity investments) as compared to increases in yields for 2013.

Net increase (reduction) in ultimate losses and loss adjustment expense liabilities – For the three and six months ended June 30, 2014 net ultimate losses and loss adjustment expense liabilities increased by \$59.7 million and \$47.7 million, respectively, compared to reductions of \$27.4 million and \$18.3 million in the three and six months ended June 30, 2013, respectively. The total increase of \$87.2 million for the three months ended June 30, 2014 compared to the comparative period in 2013 was due primarily to increases in net ultimate losses of \$16.6 million relating to Atrium and \$80.3 million relating to Torus. The total increase of \$66.0 million for the six months ended June 30, 2014 compared to 2013 was due to increases in net ultimate losses of \$33.7 million relating to Atrium and \$80.3 million relating to Torus, partially offset by a \$48.1 million larger reduction in the non-life run-off segment in 2014 compared to the same period in 2013.

Acquisition costs – Acquisition costs were \$50.4 million and \$63.5 million for the three and six months ended June 30, 2014, respectively, as compared to \$9.6 million and \$12.0 million for the same periods in 2013. The significant increase for 2014 was due to the acquisition costs associated with the net premiums earned by Atrium and Torus.

Life and annuity policy benefits – Life and annuity policy benefits were \$27.7 million and \$54.5 million for the three and six months ended June 30, 2014, respectively, as compared to \$25.6 million and \$26.3 million for the same periods in 2013. The significant increase for the six months ended June 30, 2014 as compared to the same period in 2013 was due primarily to the acquisition of Pavonia on March 31, 2013. The movements for both the three and six month periods ended June 30, 2014 and 2013 related entirely to our life and annuities segment and are described in greater detail in the segment discussion below.

Salaries and benefits – Salaries and benefits were \$55.7 million and \$87.1 million for the three and six months ended June 30, 2014, respectively, as compared to \$25.7 million and \$49.3 million for the same periods in 2013. These increases were due predominantly to the salaries and benefits costs associated with our increased head count relating to the Atrium and Torus acquisitions, as well as the Pavonia acquisition that was completed during the six-month period in 2013, in addition to an increase in our bonus accrual amount for 2014 due to higher net earnings.

General and administrative expenses – General and administrative expenses for the three and six months ended June 30, 2014 were \$37.2 million and \$59.4 million, respectively, compared to \$20.0 million and \$37.9 million, respectively, for the same periods in 2013. The increases were due principally to the acquisition expenses associated with the Arden, Atrium and Torus acquisitions.

Income tax expense – Income tax expenses were \$8.5 million and \$15.7 million for the three and six months ended June 30, 2014, respectively, as compared to \$4.5 million and \$12.4 million for the same periods in 2013. Income tax expense is generated through our foreign operations outside of Bermuda, principally in the United States, U.K and Australia. Our income tax expense may fluctuate significantly from period to period depending on the geographic distribution of pre-tax earnings or loss in any given period between different jurisdictions with different tax rates. For the three and six months ended June 30, 2014, the effective tax rate was 13.5% and 15.2%, respectively, compared to 15.3% and 24.5% for the same periods in 2013. The lower effective tax rate for the six months ended

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June 30, 2014 compared to the same period in 2013 was attributable to higher earnings in our non-tax paying subsidiaries.

Noncontrolling interest – Noncontrolling interest for the three and six months ended June 30, 2014 decreased by \$3.5 million and \$0.7 million, respectively, relative to the same periods for 2013. The decrease was attributable primarily to losses associated with our active underwriting companies (in which there are redeemable noncontrolling interests and noncontrolling interests), which were acquired subsequent to June 30, 2013.

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Results of Operations by Segment — For the Three and Six Months Ended June 30, 2014 and 2013

Non-life Run-off Segment

Three Months Ended June 30, 2014 and 2013

The following is a discussion and analysis of the results of operations for our non-life run-off segment for the three months ended June 30, 2014 and 2013 which are summarized below:

	<u>Three Months Ended June 30,</u>	
	2014	2013
	(in thousands of U.S. dollars)	
INCOME		
Net premiums earned	\$ 17,084	\$ 41,216
Fees and commission income	12,218	3,536
Net investment income	22,267	17,180
Net realized and unrealized gains (losses)	<u>30,926</u>	<u>(17,238)</u>
	<u>82,495</u>	<u>44,694</u>
EXPENSES		
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:		
—Current period	10,209	35,504
—Prior periods	<u>(47,411)</u>	<u>(62,926)</u>
	<u>(37,202)</u>	<u>(27,422)</u>
Acquisition costs	5,652	5,712
Salaries and benefits	31,463	24,626
General and administrative expenses	15,579	16,046
Interest expense	2,325	2,631
Net foreign exchange gains	<u>(632)</u>	<u>(8,450)</u>
	<u>17,185</u>	<u>13,143</u>
EARNINGS BEFORE INCOME TAXES	65,310	31,551
INCOME TAXES	<u>(5,223)</u>	<u>(4,534)</u>
NET EARNINGS	60,087	27,017
Less: Net earnings attributable to noncontrolling interest	<u>(5,574)</u>	<u>(6,001)</u>
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	<u>\$ 54,513</u>	<u>\$ 21,016</u>

Summary Comparison of Three Months Ended June 30, 2014 and 2013

In our non-life run-off segment, we reported consolidated net earnings, before net earnings attributable to noncontrolling interest, of approximately \$60.1 million and \$27.0 million for the three months ended June 30, 2014 and 2013, respectively.

The increase in earnings of \$33.1 million was attributable primarily to the following:

- (i) an increase in net realized and unrealized gains of \$48.2 million;

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- (ii) an increase in fees and commission income of \$8.7 million; and
- (iii) an increase in investment income of \$5.1 million; partially offset by
- (iv) a decrease of \$15.5 million in net reduction in ultimate losses and loss adjustment expense liabilities related to prior periods;
- (v) a decrease in net foreign exchange gains of \$7.8 million; and
- (vi) an increase in salaries and benefits of \$6.8 million.

For the three months ended June 30, 2014 the total of: (i) net premiums earned of \$17.1 million; less (ii) current period increase in net ultimate losses and loss adjustment expense liabilities of \$10.2 million; and less (iii) acquisition costs of \$5.7 million amounted to \$1.2 million and primarily related to the Torus run-off business. For the three months ended June 30, 2013 the total of: (i) net premiums earned of \$41.2 million; less (ii) current period increase in net ultimate losses and loss adjustment expense liabilities of \$35.3 million; and less (iii) acquisition costs of \$5.7 million, amounted to \$nil million and related to SeaBright.

Noncontrolling interest in earnings for the non-life run-off segment decreased by \$0.4 million to \$5.6 million for the three months ended June 30, 2014 as a result of lower earnings in those companies in which there are noncontrolling interests. Net earnings for the non-life run-off segment attributable to Enstar Group Limited increased by \$33.5 million, or 159.5%, from \$21.0 million for the three months ended June 30, 2013 to \$54.5 million for the three months ended June 30, 2014.

Net Premiums Earned:

	Three Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Gross premiums written	\$ 6,720		\$ 4,444
Ceded reinsurance premiums written	(904)		(3,274)
Net premiums written	<u>5,816</u>	\$ 4,646	<u>1,170</u>
Gross premiums earned	22,406		45,414
Ceded reinsurance premiums earned	(5,322)		(4,198)
Net premiums earned	<u>\$17,084</u>	\$ (24,132)	<u>\$41,216</u>

Premiums Written

Gross non-life run-off premiums written consist of direct premiums written and premiums assumed by Torus' run-off business and SeaBright. Upon acquisition, SeaBright was placed into run-off and, as a result, stopped writing new insurance policies.

We would expect to have in future periods relatively low levels of gross and net premiums written relating to the Torus run-off business.

Premiums Earned

Gross non-life run-off premiums earned for the three months ended June 30, 2014 and 2013 totaled \$22.4 million and \$45.4 million, respectively. Ceded reinsurance premiums earned for the three

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months ended June 30, 2014 and 2013 totaled \$5.3 million and \$4.2 million, respectively. Accordingly, net premiums earned for the three months ended June 30, 2014 and 2013 totaled \$17.1 million and \$41.2 million, respectively.

Premiums written and earned in 2014 primarily relate to the Torus' run-off business whereas premiums written and earned in 2013 relate to SeaBright.

Fees and Commission Income:

	Three Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Internal	10,183		576
External	2,035		2,960
Total	<u>\$12,218</u>	\$ 8,682	<u>\$ 3,536</u>

Our management companies in the non-life run-off segment earned fees and commission income of approximately \$12.2 million and \$3.5 million for the three months ended June 30, 2014 and 2013, respectively. The increase in fees and commission income of \$8.7 million related primarily to management fees charged to our Torus segment. These internal fees are eliminated upon consolidation of our results of operations. 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.

Net Investment Income and Net Realized and Unrealized Gains (Losses):

	Three Months Ended June 30,					
	Net Investment Income			Net Realized and Unrealized Gains (Losses)		
	2014	Variance	2013	2014	Variance	2013
(in thousands of U.S. dollars)						
Total	<u>\$22,267</u>	\$ 5,087	<u>\$17,180</u>	<u>\$30,926</u>	\$ 48,164	<u>\$(17,238)</u>

Net investment income for the non-life run-off segment for the three months ended June 30, 2014 increased by \$5.1 million to \$22.3 million, as compared to \$17.2 million for the three months ended June 30, 2013. The increase was primarily a result of higher investment balances due to assets acquired in respect of the Torus run-off business.

Net realized and unrealized gains (losses) for the non-life run-off segment for the three months ended June 30, 2014 and 2013 were \$30.9 million and \$(17.2) million, respectively. The increase of \$48.2 million was primarily attributable to:

- (i) gains of \$9.9 million in relation to the fixed maturity investments of the segment due primarily to marginal declines in the longer end of the U.S. yield curve for the three months ended June 30, 2014, as compared to losses of \$31.5 million for the same period in 2013 due to increases across the U.S. yield curve during that time; and
- (ii) an increase of \$6.1 million in realized and unrealized gains on the private equity and other investment holdings of the segment.

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Annualized Returns

The below table presents the annualized investment returns (inclusive of net investment income and net realized and unrealized gains (losses)) earned by the non-life run-off segment on its cash and investments for the three months ended June 30, 2014 and 2013:

	Annualized Return		Average Cash and Investment Balances	
	2014	2013	2014 (in thousands of U.S. dollars)	2013
Cash and fixed maturity investments	2.29%	(1.89)%	\$3,968,276	\$3,596,031
Other investments and equities	15.01%	10.65%	812,552	589,034
Combined overall	4.45%	(0.01)%	4,780,828	4,185,064

The average credit ratings by fair value of our fixed maturity investments for our non-life run-off segment as at June 30, 2014 and 2013 were AA- and A+, respectively.

Net (Reduction) Increase in Ultimate Losses and Loss Adjustment Expense Liabilities:

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

	Three Months Ended June 30,					
	2014		Total (in thousands of U.S. dollars)	Total Variance (in thousands of U.S. dollars)	2013	
	Prior Periods	Current Period			Prior Periods	Current Period
Net losses paid	\$116,315	\$ 260	\$116,575	\$ 40,884	\$ 2,784	\$ 43,668
Net change in case and LAE reserves	(78,596)	175	(78,421)	(74,166)	10,133	(64,033)
Net change in IBNR reserves	(64,504)	9,774	(54,730)	(15,218)	22,587	7,369
(Reduction) increase in estimates of net ultimate losses	(26,785)	10,209	(16,576)	3,580	(48,500)	35,504
Paid loss recoveries on bad debt provision	(11,206)	—	(11,206)	—	—	—
Reduction in provisions for unallocated loss adjustment expense liabilities	(12,874)	—	(12,874)	—	(16,795)	—
Amortization of fair value adjustments	3,454	—	3,454	—	2,369	—
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	<u>\$ (47,411)</u>	<u>\$10,209</u>	<u>\$ (37,202)</u>	9,780	<u>\$ (62,926)</u>	<u>\$35,504</u>
						<u><u>\$(27,422)</u></u>

Net change in case and LAE reserves comprise 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

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settlement or movement of assumed claims. Net change in incurred but not reported, or IBNR, reserves represents the change in our actuarial estimates of losses incurred but not reported, less amounts recoverable.

Three Months Ended June 30, 2014

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

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

- (i) our quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately \$6.8 million;
- (ii) a reduction in IBNR reserves of \$10.0 million primarily as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in Lloyd's Syndicate 2008. The prior period estimate of aggregate net IBNR liabilities was reduced as a result of the continued favorable trend of loss development compared to prior forecasts; and
- (iii) favorable claims settlements during the three months ended June 30, 2014 resulting in a reduction in estimates of net ultimate losses of approximately \$12.8 million.

Three Months Ended June 30, 2013

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

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

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

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- (ii) net favorable incurred loss development of \$25.0 million (excluding the impact of redundant case reserves of \$8.3 million) which included the settlement of net ceded case reserves of \$26.2 million (excluding ceded IBNR recoverable) for net paid receipts of \$74.3 million relating to the settlement of five commutations and policy buy-backs of assumed and ceded exposures including the commutation of one of our top ten ceded reinsurance balances recoverable; and
- (iii) a reduction in IBNR reserves of \$20.2 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in one of our Bermuda-based reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for this subsidiary was reduced as a result of the favorable trend of loss development during 2013 compared to prior forecasts.

Salaries and Benefits:

	Three Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Total	\$31,463	\$ (6,837)	\$24,626

Salaries and benefits for the non-life run-off segment, which include expenses relating to our discretionary bonus and employee share plans, were \$31.5 million and \$24.6 million for the three months ended June 30, 2014 and 2013, respectively. The increase in salaries and benefits was related primarily to:

- (i) an increase in the discretionary bonus provision of approximately \$4.3 million due to the increase in net earnings for the three months ended June 30, 2014 as compared to 2013. Expenses relating to our discretionary bonus plan will be variable and are dependent on our overall profitability; and
- (ii) an increase in total salaries effective April 1, 2014, following a salary review across the segment, as compared to the same period in 2013 when a salary freeze had generally been in effect; partially offset by
- (iii) a reduction in our average head count in our non-life run-off segment from approximately 568 for the three months ended June 30, 2013 to approximately 517 for the three months ended June 30, 2014.

Net Foreign Exchange Gains:

	Three Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Total	\$632	\$ (7,818)	\$8,450

We recorded net foreign exchange gains for the non-life run-off segment of \$0.6 million and \$8.5 million for the three months ended June 30, 2014 and 2013, respectively. The net foreign exchange gains for the three months ended June 30, 2013 arose primarily as a result of holding surplus U.S. dollar assets in one of our subsidiaries whose functional currency is Australian dollars at a time when the Australian dollar depreciated sharply against the U.S. dollar.

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In addition to the net foreign exchange gains recorded in our consolidated statement of earnings, we recorded in our unaudited condensed consolidated statement of comprehensive income currency translation adjustment gains (losses), net of noncontrolling interest, related to our non-life run-off segment of \$2.1 million and \$(12.5) million for the three months ended June 30, 2014 and 2013, respectively. For the three months ended June 30, 2014 and 2013, the currency translation adjustments related primarily to our Australian-based subsidiaries. As the functional currency of these subsidiaries are Australian dollars, we record any U.S. dollar gains or losses on the translation of their net Australian dollar assets through accumulated other comprehensive income.

Income Tax Expense:

	Three Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Total	\$5,223	\$ (689)	\$4,534

We recorded income tax expense for the non-life run-off segment of \$5.2 million and \$4.5 million for the three months ended June 30, 2014 and 2013, respectively.

Income tax expense is generated primarily through our foreign operations outside of Bermuda, principally in the United States, Europe and Australia. The effective tax rate, which is calculated as income tax expense or benefit divided by income before tax, is driven primarily by the geographic distribution of pre-tax net income between jurisdictions with comparatively higher tax rates and those with comparatively lower income tax rates and as a result may fluctuate significantly from period to period.

The effective tax rate was 7.9% for the three months ended June 30, 2014 compared with 14.4% for same period in 2013, associated primarily with us having proportionately higher net income in our non-tax paying subsidiaries than in the prior period.

Noncontrolling Interest:

	Three Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Total	\$5,574	\$ 427	\$6,001

We recorded a noncontrolling interest in earnings of the non-life run-off segment of \$5.6 million and \$6.0 million for the three months ended June 30, 2014 and 2013, respectively.

The decrease for the three months ended June 30, 2014 was due primarily to the decrease in earnings for those companies in our non-life run-off segment where there exists a noncontrolling interest.

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Six Months Ended June 30, 2014 and 2013

The following is a discussion and analysis of the results of operations for our non-life run-off segment for the six months ended June 30, 2014 and 2013 which are summarized below:

	Six Months Ended June 30,	
	2014	2013
	(in thousands of U.S. dollars)	
INCOME		
Net premiums earned	\$ 19,611	\$ 72,136
Fees and commission income	15,173	6,164
Net investment income	36,600	34,871
Net realized and unrealized gains	60,555	13,040
	<u>131,939</u>	<u>126,211</u>
EXPENSES		
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities		
—Current period	11,641	64,037
—Prior periods	(78,024)	(82,298)
	<u>(66,383)</u>	<u>(18,261)</u>
Acquisition costs	5,652	8,099
Salaries and benefits	57,311	48,090
General and administrative expenses	31,342	32,461
Interest expense	4,887	5,051
Net foreign exchange losses (gains)	1,498	(3,514)
	<u>34,307</u>	<u>71,926</u>
EARNINGS BEFORE INCOME TAXES	97,632	54,285
INCOME TAXES	(8,874)	(12,358)
NET EARNINGS	88,758	41,927
Less: Net earnings attributable to noncontrolling interest	(8,645)	(7,027)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	\$ 80,113	\$ 34,900

Summary Comparison of Six Months Ended June 30, 2014 and 2013

In our non-life run-off segment, we reported consolidated net earnings, before net earnings attributable to noncontrolling interest, of approximately \$88.8 million and \$41.9 million for the six months ended June 30, 2014 and 2013, respectively.

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The increase in earnings of \$46.8 million was attributable primarily to the following:

- (i) an increase in net realized and unrealized gains of \$47.5 million;
- (ii) an increase in fees and commission income of \$9.0 million; and
- (iii) a reduction in income taxes of \$3.5 million; partially offset by
- (iv) an increase in salaries and benefits of \$9.2 million;
- (v) a decrease of \$4.3 million in net reduction in ultimate losses and loss adjustment expense liabilities related to prior periods; and
- (vi) a net foreign exchange loss of \$1.5 million for the six months ended June 30, 2014, as compared to a net foreign exchange gain of \$3.5 million for the same period in 2013.

For the six months ended June 30, 2014 the total of: (i) net premiums earned of \$19.6 million; less (ii) current period increase in net ultimate losses and loss adjustment expense liabilities of \$11.6 million; and less (iii) acquisition costs of \$5.7 million amounted to \$1.2 million and primarily related to the Torus run-off business. For the six months ended June 30, 2013 the total of: (i) net premiums earned of \$72.1 million; less (ii) current period increase in net ultimate losses and loss adjustment expense liabilities of \$64.0 million; and less (iii) acquisition costs of \$8.1 million, amounted to \$nil million and related to SeaBright.

Noncontrolling interest in earnings for the non-life run-off segment increased by \$1.6 million to \$8.6 million for the six months ended June 30, 2014 as a result of higher earnings in those companies in which there are noncontrolling interests. Net earnings for the non-life run-off segment attributable to Enstar Group Limited increased by \$45.2 million, or 129.5%, from \$34.9 million for the six months ended June 30, 2013 to \$80.1 million for the six months ended June 30, 2014.

Net Premiums Earned:

	Six Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Gross premiums written	\$ 8,039		\$16,542
Ceded reinsurance premiums written	(1,180)		(5,664)
Net premiums written	<u>6,859</u>	<u>\$ (4,019)</u>	<u>10,878</u>
Gross premiums earned	25,174		79,550
Ceded reinsurance premiums earned	(5,563)		(7,414)
Net premiums earned	<u>\$19,611</u>	<u>\$(52,525)</u>	<u>\$72,136</u>

Premiums Written

Gross non-life run-off premiums written consist of direct premiums written and premiums assumed primarily by Torus' run-off business for 2014 and by SeaBright for 2013. Gross and net non-life run-off premiums written for the six months ended June 30, 2014 totaled \$8.0 million and \$6.9 million, respectively, as compared to \$16.5 million and \$10.9 million for the same period in 2013.

Premiums Earned

Gross non-life run-off premiums earned for the six months ended June 30, 2014 and 2013 totaled \$25.2 million and \$79.5 million, respectively. Ceded reinsurance premiums earned for the six months

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ended June 30, 2014 and 2013 totaled \$5.6 million and \$7.4 million, respectively. Accordingly, net premiums earned for the six months ended June 30, 2014 and 2013 totaled \$19.6 million and \$72.1 million, respectively.

Premiums earned in 2014 primarily relate to Torus' run-off business whereas premiums earned in 2013 relate to SeaBright.

Fees and Commission Income:

	Six Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Internal	\$10,961		\$ 757
External	4,212		5,407
Total	<u>\$15,173</u>	\$ 9,009	<u>\$6,164</u>

Our management companies in the non-life run-off segment earned fees and commission income of approximately \$15.2 million and \$6.2 million for the six months ended June 30, 2014 and 2013, respectively. The increase in fees and commission income of \$9.0 million related primarily to management fees charged to our Torus segment. These internal fees are eliminated upon consolidation of our results of operations.

Net Investment Income and Net Realized and Unrealized Gains:

	Six Months Ended June 30,					
	Net Investment Income		Net Realized and Unrealized Gains			(in thousands of U.S. dollars)
	2014	Variance	2013	2014	Variance	2013
Total	<u>\$36,600</u>	\$ 1,729	<u>\$34,871</u>	<u>\$ 60,555</u>	\$ 47,515	<u>\$ 13,040</u>

Net investment income for the non-life run-off segment for the six months ended June 30, 2014 increased by \$1.7 million to \$36.6 million, as compared to \$34.9 million for the six months ended June 30, 2013. The increase was primarily a result of higher investment balances due to assets acquired in respect of the Torus run-off business.

Net realized and unrealized gains for the non-life run-off segment for the six months ended June 30, 2014 and 2013 were \$60.6 million and \$13.1 million, respectively. The increase of \$47.5 million was attributable primarily to the combination of the following items:

- (i) gains of \$18.1 million in relation to fixed maturity investments of the segment due primarily to declines in the longer end of the U.S. yield curve for the year to date as compared to losses of \$29.8 million for the same period in 2013 due to increases across the U.S. yield curve; and
- (ii) an increase of \$4.0 million in realized and unrealized gains on the private equity and other investment holdings of the segment; partially offset by
- (iii) a decrease of \$4.4 million in realized and unrealized gains on our equity portfolios as equity markets generally continued to advance in 2014, but not to the same extent as for the same period in 2013.

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Annualized Returns

The below table presents the annualized investment returns (inclusive of net investment income and net realized and unrealized gains) earned by the non-life run-off segment on its cash and investments for the six months ended June 30, 2014 and 2013:

	Annualized Return		Average Cash and Investment Balances	
	2014	2013	2014 (in thousands of U.S. dollars)	2013
Cash and fixed maturity investments	2.21%	(0.04)%	\$3,996,896	\$3,407,285
Other investments and equities	13.42%	15.99%	788,716	567,732
Combined overall	4.06%	2.41%	4,785,612	3,975,017

The average credit ratings by fair value of our fixed maturity investments for our non-life run-off segment as at June 30, 2014 and 2013 were AA- and A+, respectively.

Net (Reduction) Increase in Ultimate Losses and Loss Adjustment Expense Liabilities:

The following table shows the components of the movement in the net (reduction) increase in ultimate losses and loss adjustment expense liabilities for the six months ended June 30, 2014 and 2013 (a reclassification of \$8.1 million was made from 2013 current period net losses paid to acquisition costs in order to conform to current year presentation):

	Six Months Ended June 30,					
	2014		Total Variance (in thousands of U.S. dollars)	2013		
	Prior Periods	Current Period		Prior Periods	Current Period	Total
Net losses paid	\$ 203,470	\$ 792	\$ 204,262	\$ 122,018	\$ 5,324	\$ 127,342
Net change in case and LAE reserves	(141,845)	1,026	(140,819)	(137,612)	15,379	(122,233)
Net change in IBNR reserves	(101,901)	9,823	(92,078)	(37,968)	43,334	5,366
(Reduction) increase in estimates of net ultimate losses	(40,276)	11,641	(28,635)	39,110	(53,562)	64,037
Paid loss recoveries on bad debt provisions	(11,206)	—	(11,206)	—	—	—
Reduction in provisions for unallocated loss adjustment expense liabilities	(26,233)	—	(26,233)	(33,198)	—	(33,198)
Amortization of fair value adjustments	(309)	—	(309)	4,462	—	4,462
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	\$ (78,024)	\$ 11,641	\$ (66,383)	48,122	\$ (82,298)	\$ 64,037
						\$ (18,261)

Six Months Ended June 30, 2014

The net reduction in ultimate losses and loss adjustment expense liabilities for the six months ended June 30, 2014 of \$66.4 million included an increase in incurred losses of \$11.6 million related to

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

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

- (i) our quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately \$13.6 million;
- (ii) a reduction in IBNR reserves of \$10.0 million primarily as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in Lloyd's Syndicate 2008. The prior period estimate of aggregate net IBNR liabilities was reduced as a result of the continued favorable trend of loss development during the six months ended June 30, 2014 compared to prior forecasts; and
- (iii) favorable claims settlements during the six months ended June 30, 2014 resulting in a reduction in estimates of net ultimate losses of approximately \$19.5 million.

Six Months Ended June 30, 2013

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

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

- (i) our quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately \$16.6 million;
- (ii) net incurred loss development of \$1.0 million (excluding the impact of redundant case reserves of \$16.6 million) which included the settlement of net ceded case reserves of \$26.2 million (excluding ceded IBNR recoverable) for net paid receipts of \$74.3 million relating to the settlement of five commutations and policy buy-backs of assumed and ceded exposures including the commutation of one of our top ten ceded reinsurance balances recoverable; and
- (iii) a reduction in IBNR reserves of \$20.2 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of our actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid loss and loss adjustment expenses relating to non-commuted exposures in one of our Bermuda-based reinsurance subsidiaries. The prior period estimate of aggregate net

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IBNR liabilities for this subsidiary was reduced as a result of the favorable trend of loss development during 2013 compared to prior forecasts.

Acquisition Costs:

	Six Months Ended June 30,		
	2014	Variance	2013
(in thousands of U.S. dollars)			
Total	\$5,652	\$ 2,447	\$8,099

Acquisition costs for the non-life run-off segment were \$5.7 million and \$8.1 million for the six months ended June 30, 2014 and 2013, respectively. Acquisition costs are directly related to the amount of net premiums earned by us which, for the six months ended June 30, 2014, directly related to the portion of Torus' business that was placed into run-off and, for the same period in 2013, directly related only to SeaBright. A reclassification of \$8.1 million was made from 2013 current period net losses paid to acquisition costs in order to conform to current year presentation.

Salaries and Benefits:

	Six Months Ended June 30,		
	2014	Variance	2013
(in thousands of U.S. dollars)			
Total	\$57,311	\$ (9,221)	\$48,090

Salaries and benefits for the non-life run-off segment, which include expenses relating to our discretionary bonus and employee share plans, were \$57.3 million and \$48.1 million for the six months ended June 30, 2014 and 2013, respectively. The increase in salaries and benefits was related primarily to:

- (i) an increase in the discretionary bonus provision of approximately \$8.2 million due to the increase in net earnings for the six months ended June 30, 2014 as compared to 2013. Expenses relating to our discretionary bonus plan will be variable and are dependent on our overall profitability; and
- (ii) an increase in total salaries effective April 1, 2014, following a salary review across the segment, as compared to the same period in 2013 when a salary freeze had generally been in effect; partially offset by
- (iii) a reduction in our average headcount in our non-life segment from approximately 562 for the six months ended June 30, 2013 to approximately 520 for the six months ended June 30, 2013.

Net Foreign Exchange (Losses) Gains:

	Six Months Ended June 30,		
	2014	Variance	2013
(in thousands of U.S. dollars)			
Total	\$(1,498)	\$ (5,012)	\$3,514

We recorded net foreign exchange (losses) gains for the non-life run-off segment of \$(1.5) million and \$3.5 million for the six months ended June 30, 2014 and 2013, respectively. The net foreign exchange losses for the six months ended June 30, 2014 arose primarily as a result of the holding of surplus U.S. dollar assets by our Australian subsidiary at a time when the Australian dollar had

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appreciated against the U.S. dollar. The net foreign exchange gains for the six months ended June 30, 2013 arose principally as a result of the holding of surplus U.S. dollar assets by our Australian subsidiary at a time when the Australian dollar had depreciated against the U.S. dollar.

In addition to the net foreign exchange (losses) gains recorded in our consolidated statement of earnings, we recorded in our unaudited condensed consolidated statement of comprehensive income currency translation adjustment gains, net of noncontrolling interest, related to our non-life run-off segment of \$5.3 million for the six months ended June 30, 2014 as compared to losses, net of noncontrolling interest, of \$12.8 million for the six months ended June 30, 2013. For both the six months ended June 30, 2014 and 2013, the currency translation adjustments related primarily to our Australian-based subsidiaries.

Income Tax Expense:

	Six Months Ended June 30,		
	2014	Variance	2013
Total	(in thousands of U.S. dollars)		
Total	\$8,874	\$ 3,484	\$12,358

We recorded income tax expense for the non-life run-off segment of \$8.9 million and \$12.4 million for the six months ended June 30, 2014 and 2013, respectively. The decrease in income taxes of \$3.5 million was due principally to decreased pre-tax net income recorded in our U.S. and U.K.-based subsidiaries.

The effective tax rate was 9.1% for the six months ended June 30, 2014 as compared with 22.8% for the same period in 2013. In 2014, we had proportionately greater net income in our non-tax paying subsidiaries than in the prior period.

Noncontrolling Interest:

	Six Months Ended June 30,		
	2014	Variance	2013
Total	(in thousands of U.S. dollars)		
Total	\$8,645	\$ (1,618)	\$7,027

We recorded a noncontrolling interest in earnings of the non-life run-off segment of \$8.6 million and \$7.0 million for the six months ended June 30, 2014 and 2013, respectively. The increase for the six months ended June 30, 2014 was due primarily to the increase in earnings for those companies where there exists a noncontrolling interest.

Atrium Segment

Our Atrium segment is comprised of the operations and financial results of Northshore, a holding company that owns Atrium and its subsidiaries (acquired November 25, 2013) and Arden (acquired September 9, 2013). Arden provides quota share reinsurance to Atrium. This quota share arrangement is eliminated upon consolidation.

Results related to Arden's run-off lines of business are included within our non-life run-off segment. Atrium's subsidiary, Atrium Underwriters Ltd., or AUL, is the managing agent for Lloyd's Syndicate 609. AUL earns fees and profit commissions on business underwritten for the Syndicate. Atrium's subsidiary, Atrium 5 Ltd, impacts our results with respect to the 25% underwriting capacity and capital it provides to Syndicate 609. The remaining underwriting capacity is provided by traditional Lloyd's Names.

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The following is a discussion and analysis of our results of operations for the Atrium segment for the three and six months ended June 30, 2014, which are summarized below:

	Three Months Ended June 30, 2014				Six Months Ended June 30, 2014			
	Atrium	Holding Companies	Enstar Specific Expenses	Total	Atrium	Holding Companies	Enstar Specific Expenses	Total
	(in thousands of U.S. dollars)							
INCOME								
Net premiums earned	\$33,997	\$ —	\$ —	\$33,997	\$66,636	\$ —	\$ —	\$66,636
Fees and commission income	5,474	—	—	5,474	10,295	—	—	10,295
Net investment income	497	—	—	497	977	—	—	977
Net realized and unrealized gains	4	—	—	4	(103)	—	—	(103)
	<u>39,972</u>	<u>—</u>	<u>—</u>	<u>39,972</u>	<u>77,805</u>	<u>—</u>	<u>—</u>	<u>77,805</u>
EXPENSES								
Net increase in ultimate losses and loss adjustment expense liabilities	16,611	—	—	16,611	33,742	—	—	33,742
Acquisition costs	11,167	—	—	11,167	20,728	—	—	20,728
Salaries and benefits	4,226	—	—	4,226	7,759	—	—	7,759
General and administrative expenses	3,329	661	—	3,990	6,201	1,830	—	8,031
Interest expense	—	—	1,204	1,204	5	—	2,371	2,376
Net foreign exchange gains	(435)	—	—	(435)	(986)	—	—	(986)
	<u>34,898</u>	<u>661</u>	<u>1,204</u>	<u>36,763</u>	<u>67,449</u>	<u>1,830</u>	<u>2,371</u>	<u>71,650</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	5,074	(661)	(1,204)	3,209	10,356	(1,830)	(2,371)	6,155
INCOME TAXES	(1,280)	—	—	(1,280)	(2,619)	—	—	(2,619)
NET EARNINGS (LOSS)	3,794	(661)	(1,204)	1,929	7,737	(1,830)	(2,371)	3,536
Less: Net (earnings) loss attributable to noncontrolling interest	(1,570)	277	—	(1,293)	(3,148)	745	—	(2,403)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	<u>\$ 2,224</u>	<u>\$ (384)</u>	<u>\$ (1,204)</u>	<u>\$ 636</u>	<u>\$ 4,589</u>	<u>\$ (1,085)</u>	<u>\$ (2,371)</u>	<u>\$ 1,133</u>
Loss ratio (1)	48.9%				50.6%			
Acquisition cost ratio (2)	32.8%				31.1%			
Other operating expense ratio (3)	22.2%				20.9%			
Combined ratio (4)	103.9%				102.6%			

(1) Loss ratio is obtained by dividing net increase in ultimate losses and loss adjustment expense liabilities by net premiums earned.

(2) Acquisition cost ratio is obtained by dividing acquisition costs by net premiums earned.

(3) Other operating expense ratio is obtained by dividing the sum of general and administrative expenses and salaries and benefits attributable to Atrium by net premiums earned. Other operating expense ratio is a non-GAAP financial measure because it excludes the general and administrative expenses of the Atrium segment holding companies. The most directly comparable GAAP financial measure would be to include these holding company expenses, which would result in a ratio of

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24.2% and 23.7% for the three and six months ended June 30, 2014, respectively. See "Non-GAAP Financial Measures" for more information on this ratio.

- (4) Our combined ratio is the sum of: (i) our loss ratio, (ii) our acquisition cost ratio and (iii) our other operating expense ratio (which is a non-GAAP financial measure, as described in footnote 3). Our historical combined ratio may not be indicative of future underwriting performance.

Three Months Ended June 30, 2014

For the Atrium segment, we reported net earnings, before net earnings attributable to noncontrolling interest, of approximately \$1.9 million for the three months ended June 30, 2014.

The results were primarily driven by:

- (i) net underwriting result of \$6.2 million (net premiums earned of \$34.0 million less \$16.6 million in net increase in ultimate losses and loss adjustment expense liabilities and \$11.2 million of acquisition costs);
- (ii) fees and commission income of \$5.5 million; and
- (iii) net investment income and net realized and unrealized gains of \$0.5 million; partially offset by
- (iv) salaries and benefits and general and administrative expenses of \$8.2 million;
- (v) interest expense of \$1.2 million; and
- (vi) income taxes of \$1.3 million.

Noncontrolling interest in earnings of the Atrium segment of \$1.3 million resulted in net earnings attributable to Enstar Group Limited of \$0.6 million for the three months ended June 30, 2014. The noncontrolling interests' share of earnings is greater than their 41.54% share of the Atrium segment's net earnings primarily due to interest expense in respect of borrowings under our revolving credit facility that are recorded within the Atrium segment and 100% attributable to us.

Six Months Ended June 30, 2014

For the Atrium segment, we reported net earnings, before net earnings attributable to noncontrolling interest, of approximately \$3.5 million for the six months ended June 30, 2014.

The results were primarily driven by:

- (i) net underwriting result of \$12.2 million (net premiums earned of \$66.6 million less \$33.7 million in net increase in ultimate losses and loss adjustment expense liabilities and \$20.7 million of acquisition costs);
- (ii) fees and commission income of \$10.3 million; and
- (iii) net investment income and net realized and unrealized gains of \$0.9 million; partially offset by
- (iv) salaries and benefits and general and administrative expenses of \$15.8 million;
- (v) interest expense of \$2.4 million; and
- (vi) income taxes of \$2.6 million.

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Noncontrolling interest in earnings of the Atrium segment of \$2.4 million resulted in net earnings attributable to Enstar Group Limited of \$1.1 million for the six months ended June 30, 2014. The noncontrolling interests' share of earnings is greater than their 41.54% share of the Atrium segment's net earnings primarily due to interest expense in respect of borrowings under our revolving credit facility that are recorded within the segment and 100% attributable to us.

For 2014, we expect the income and expenses associated with the Atrium segment to increase as compared to 2013 as a result of owning these companies for a full year. Earnings attributable to noncontrolling interest in 2014 will be dependent on the level of earnings for these companies.

Gross Premiums Written:

The following table provides gross premiums written by line of business for the Atrium segment for the three and six months ended June 30, 2014:

	Gross Premiums Written		Gross Premiums Written	
	Three Months Ended June 30, 2014	% of Total Gross Premiums Written	Six Months Ended June 30, 2014	% of Total Gross Premiums Written
(in thousands of U.S. dollars)				
Marine Property	\$ 5,877.2	14.7%	\$ 13,909.7	15.9%
Property and Casualty Binding Authorities	6,900.4	17.3%	14,143.5	16.2%
Upstream Energy	7,898.9	19.8%	14,130.9	16.2%
Reinsurance	3,031.7	7.6%	8,842.6	10.1%
Accident and Health	2,447.6	6.1%	8,163.4	9.3%
Professional Liability	4,502.5	11.3%	8,637.3	9.9%
Non-marine Property	4,845.1	12.2%	8,749.2	10.0%
Aviation	1,730.1	4.3%	5,625.7	6.4%
War and Terrorism	2,623.2	6.7%	5,231.9	6.0%
Total	<u>\$ 39,856.7</u>	<u>100.0%</u>	<u>\$ 87,434.2</u>	<u>100.0%</u>

Gross premiums written were \$39.9 million and \$87.4 million for the three and six months ended June 30, 2014, respectively.

Net Premiums Earned:

The following table provides net premiums earned by line of business for the Atrium segment for the three and six months ended June 30, 2014:

	Net Premiums Earned			
	Three Months Ended June 30, 2014	% of Total Net Premiums Earned	Six Months Ended June 30, 2014	% of Total Net Premiums Earned
(in thousands of U.S. dollars)				
Marine Property	\$ 5,515.3	16.2%	\$ 10,780.4	16.2%
Property and Casualty Binding Authorities	6,121.0	18.0%	11,627.6	17.4%
Upstream Energy	4,579.6	13.5%	9,595.1	14.4%
Reinsurance	2,803.2	8.2%	5,812.4	8.7%
Accident and Health	3,055.8	9.0%	6,998.1	10.5%
Professional Liability	3,901.2	11.5%	6,902.3	10.4%
Non-marine Property	3,619.8	10.6%	7,276.4	10.9%
Aviation	2,200.2	6.5%	3,966.1	6.0%
War and Terrorism	2,201.0	6.5%	3,677.5	5.5%
Total	<u>\$ 33,997.1</u>	<u>100.0%</u>	<u>\$ 66,635.9</u>	<u>100.0%</u>

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Fees and Commission Income:

	June 30, 2014	
	Three Months Ended (in thousands of U.S. dollars)	Six Months Ended
Total	\$ 5,474	\$ 10,295

The Atrium segment earned fees and commission income of approximately \$5.5 million and \$10.3 million for the three and six months ended June 30, 2014, respectively. The fees represent management and profit commission fees earned by us in relation to Atrium's management of Syndicate 609.

Net Increase in Ultimate Losses and Loss Adjustment Expenses Liabilities:

For the three months ended June 30, 2014, we recorded an overall net increase in ultimate losses and loss adjustment expense liabilities for the Atrium segment of \$16.6 million, including net favorable prior period reserve development of \$2.3 million due to claims improvement and reserve releases, largely related to our aviation and non-marine direct and facultative lines of business. A net increase in ultimate losses and loss adjustment expense liabilities for the current period of \$18.9 million has been recorded based on expected loss ratios on current period earned premium.

For the six months ended June 30, 2014, we recorded an overall net increase in ultimate losses and loss adjustment expense liabilities for the Atrium segment of \$33.7 million, including net favorable prior period reserve development of \$6.5 million due to claims improvement and reserve releases, largely related to our aviation and non-marine direct and facultative lines of business. A net increase in ultimate losses and loss adjustment expense liabilities for the six months ended June 30, 2014 of \$40.2 million has been recorded on expected loss ratios on current period earned premium.

There is no assurance that conditions or trends that have affected the development of our reserves in the past will continue, and prior period development may not be indicative of development in future periods.

Salaries and Benefits:

	June 30, 2014	
	Three Months Ended (in thousands of U.S. dollars)	Six Months Ended
Total	\$ 4,226	\$ 7,759

Salaries and benefits for the Atrium segment were \$4.2 million and \$7.8 million for the three and six months ended June 30, 2014, respectively. For the three months ended June 30, 2014, these costs included salaries and benefits of \$1.9 million, share grant costs of \$1.9 million and discretionary bonus costs of approximately \$0.4 million. For the six months ended June 30, 2014, the total of \$7.8 million was comprised of salaries and benefits of \$3.6 million, share grant costs of \$2.3 million and discretionary bonus of \$1.9 million. The share grant costs relate to the Atrium employee equity awards, which are described in "—Acquisitions". Expenses relating to the discretionary bonus plan will be variable and dependent on Atrium's overall profitability.

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General and Administrative Expenses:

	June 30, 2014	
	Three Months Ended (in thousands of U.S. dollars)	Six Months Ended (in thousands of U.S. dollars)
Total	\$ 3,990	\$ 8,031

General and administrative expenses for the Atrium segment were \$4.0 million and \$8.0 million for the three and six months ended June 30, 2014, respectively. This was comprised of \$3.3 million and \$6.2 million related to Atrium and Arden for the three and six month periods ended June 30, 2014, respectively, and related primarily to office expenses and professional fees. In addition, expenses of \$0.7 million and \$1.8 million for the three and six months ended June 30, 2014, respectively, related primarily to the amortization of the definite-lived intangible assets in the Atrium segment holding companies.

Interest Expense:

	June 30, 2014	
	Three Months Ended (in thousands of U.S. dollars)	Six Months Ended (in thousands of U.S. dollars)
Total	\$ 1,204	\$ 2,376

Interest expense for the Atrium segment of \$1.2 million and \$2.4 million was recorded for the three and six months ended June 30, 2014, respectively. The interest expense recorded in the segment was in respect of borrowings under our revolving credit facility that are recorded in the segment and 100% attributable to us.

Noncontrolling Interest:

	June 30, 2014	
	Three Months Ended (in thousands of U.S. dollars)	Six Months Ended (in thousands of U.S. dollars)
Total	\$ 1,293	\$ 2,403

We recorded noncontrolling interest in earnings of the Atrium segment of \$1.3 million and \$2.4 million for the three and six months ended June 30, 2014. As of June 30, 2014, Trident, Dowling and Atrium management had a combined 41.54% noncontrolling interest in the Atrium segment.

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Torus Segment

Our Torus segment is comprised of the operations and financial results of Bayshore, a holding company that owns Torus and its subsidiaries. Results related to Torus' run-off lines of business are included within our non-life run-off segment.

The following is a discussion and analysis of our results of operations for Torus for the three and six months ended June 30, 2014, which are summarized below. Because we acquired Torus on April 1, 2014, the results in this segment were the same for the three months and six months ended June 30, 2014, with the exception of general and administrative expenses, which is discussed below.

	Three Months Ended June 30 2014			Six Months Ended June 30 2014		
	Holding Companies		Total	Holding Companies		Total
	Torus	(in thousands of U.S. dollars)		Torus	(in thousands of U.S. dollars)	
INCOME						
Net premiums earned	\$138,239	\$ —	\$138,239	\$138,239	\$ —	\$138,239
Fees and commission income	—	—	—	—	—	—
Net investment income	1,365	—	1,365	1,365	—	1,365
Net realized and unrealized gains	3,218	—	3,218	3,218	—	3,218
	<u>142,822</u>	<u>—</u>	<u>142,822</u>	<u>142,822</u>	<u>—</u>	<u>142,822</u>
EXPENSES						
Net increase in ultimate losses and loss adjustment expense liabilities	80,340	—	80,340	80,340	—	80,340
Acquisition costs	29,602	—	29,602	29,602	—	29,602
Salaries and benefits	16,970	630	17,600	16,970	630	17,600
General and administrative expenses	13,136	11,907	25,043	13,136	12,800	25,936
Net foreign exchange losses	614	6	620	614	11	625
	<u>140,662</u>	<u>12,543</u>	<u>153,205</u>	<u>140,662</u>	<u>13,441</u>	<u>154,103</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	2,160	(12,543)	(10,383)	2,160	(13,441)	(11,281)
INCOME TAXES	(394)	—	(394)	(394)	—	(394)
NET EARNINGS (LOSS)	1,766	(12,543)	(10,777)	1,766	(13,441)	(11,675)
Less: Net (earnings) loss attributable to noncontrolling interest	(905)	5,256	4,351	(905)	5,612	4,707
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	\$ 861	\$ (7,287)	\$ (6,426)	\$ 861	\$ (7,829)	\$ (6,968)
Loss ratio ⁽¹⁾	58.1%			58.1%		
Acquisition cost ratio ⁽²⁾	21.4%			21.4%		
Other operating expense ratio ⁽³⁾	21.8%			21.8%		
Combined ratio	101.3%			101.3%		

(1) Loss ratio is obtained by dividing net increase in ultimate losses and loss adjustment expense liabilities by net premiums earned.

(2) Acquisition cost ratio is obtained by dividing acquisition costs by net premiums earned.

(3) Other operating expense ratio is obtained by dividing the sum of general and administrative expenses and salaries and benefits attributable to Torus by net premiums earned. Other operating expense ratio is a non-GAAP financial measure because it excludes the general and administrative and salaries and benefits expenses of the Torus holding companies. The most directly comparable

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- GAAP financial measure would be to include these holding company expenses, which would result in a ratio of 30.8% and 31.5% for the three and six months ended June 30, 2014, respectively. See "Non-GAAP Financial Measures" for more information on this ratio.
- (4) Our combined ratio is the sum of: (i) our loss ratio, (ii) our acquisition cost ratio and (iii) our other operating expense ratio (which is a non-GAAP financial measure, as described in footnote 3). Our historical combined ratio may not be indicative of future underwriting performance.

For the Torus segment, we reported net loss, before net loss attributable to noncontrolling interest, of approximately \$10.8 million for the three months ended June 30, 2014.

The results were primarily driven by:

- (i) net underwriting result of \$28.3 million (net premiums earned of \$138.2 million less \$80.3 million in net increase in losses and loss adjustment expense liabilities and \$29.6 million of acquisition costs);
- (ii) net investment income and net realized and unrealized gains of \$4.6 million; partially offset by
- (iii) salaries and benefits and general and administrative expenses totaling \$42.6 million;
- (iv) foreign exchange losses of \$0.6 million; and
- (v) income taxes of \$0.4 million.

Noncontrolling interest in the net loss of the Torus segment of \$4.3 million resulted in net loss attributable to Enstar Group Limited of \$6.4 million for the three months ended June 30, 2014.

Gross Premiums Written:

The following table provides gross premiums written by line of business for the Torus segment for the three months ended June 30, 2014:

	Gross Premiums Written	
	Three Months Ended June 30, 2014	% of Total Gross Premiums Written
Property	\$ 45,854.9	26.9%
Marine & Excess Casualty	31,955.3	18.7%
Aviation and Space	22,950.4	13.4%
Non-U.S. Management and Professional Liability	8,161.1	4.8%
Accident and Health	2,927.8	1.7%
U.S. Management and Professional Liability	7,360.3	4.3%
Healthcare	8,845.6	5.2%
U.S. Casualty	34,095.0	20.0%
Workers Compensation	8,495.1	5.0%
Total	<u>\$ 170,645.5</u>	<u>100.0%</u>

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Net Premiums Earned:

The following table provides net premiums earned by line of business for the Torus segment for the three months ended June 30, 2014:

	Net Premiums Earned	
	Three Months Ended June 30, 2014	% of Total Net Premiums Earned
Property	\$ 26,008.0	18.8%
Marine & Excess Casualty	26,868.6	19.4%
Aviation and Space	17,880.5	12.9%
Non-U.S. Management and Professional Liability	10,231.1	7.4%
Accident and Health	2,581.7	1.9%
U.S. Management and Professional Liability	6,884.5	5.0%
Healthcare	8,223.1	5.9%
U.S. Casualty	17,020.0	12.3%
Workers Compensation	3,920.3	2.8%
Other	18,621.4	13.6%
Total	\$ 138,239.2	100.0%

Net Increase in Ultimate Losses and Loss Adjustment Expense Liabilities:

For the three months ended June 30, 2014, we recorded an overall net increase in ultimate losses and loss adjustment expense liabilities for the Torus segment of \$80.3 million principally due to an increase in estimates of net ultimate losses related to the current period, which has been recorded based on expected loss ratios on current period earned premium.

There is no assurance that conditions or trends that have affected the development of our reserves in the past will continue, and prior period development may not be indicative of development in future periods.

Salaries and Benefits:

Salaries and benefits costs for the Torus segment were \$17.6 million for the three months ended June 30, 2014. The salary and benefit expense was related primarily to \$15.2 million of direct expense for employees of Torus, inclusive of discretionary bonus costs accrued of approximately \$1.8 million, and \$0.6 million of costs associated with employee share awards granted to certain Torus employees in the period.

General and Administrative Expenses:

General and administrative expenses for the Torus segment were \$25.0 million and \$25.9 million for the three and six months ended June 30, 2014, respectively. The amounts for the six month period ended June 30, 2014 were comprised of \$13.1 million directly incurred by Torus' operations, \$10.0 million relating to management fee expenses charged by our non-life run-off segment to Bayshore and \$2.8 million of acquisition related expenses incurred by Bayshore.

Noncontrolling Interest:

We recorded noncontrolling interest in the net loss of the Torus segment of \$4.3 million and \$4.7 million for the three and six months ended June 30, 2014. As of June 30, 2014, Trident and Dowling held a combined 41.02% noncontrolling interest in the Torus segment.

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Life and Annuities Segment

Three Months Ended June 30, 2014

The following is a discussion and analysis of the results of operations for our life and annuities segment for the three months ended June 30, 2014 and 2013 which are summarized below:

	Three Months Ended June 30,	
	2014	2013
	(in thousands of U.S. dollars)	
INCOME		
Net premiums earned	\$ 27,596	\$ 34,380
Fees and commission income	13	—
Net investment income	9,952	10,072
Net realized and unrealized gains (losses)	4,263	(10,681)
	<u>41,824</u>	<u>33,771</u>
EXPENSES		
Life and annuity policy benefits	27,732	25,562
Acquisition costs	3,958	3,920
Salaries and benefits	2,394	1,061
General and administrative expenses	2,761	4,532
Interest expense	432	460
Net foreign exchange (gains) losses	(78)	47
	<u>37,199</u>	<u>35,582</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	4,625	(1,811)
INCOME TAXES	(1,555)	(8)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	\$ 3,070	\$ (1,819)

For the life and annuities segment, net earnings (loss) attributable to Enstar Group Limited increased by \$4.9 million, from \$(1.8) million for the three months ended June 30, 2013 to \$3.1 million for the three months ended June 30, 2014.

Net Premiums Earned:

	Three Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Term life insurance	\$ 7,478	\$(1,566)	\$ 9,044
Assumed life reinsurance	6,229	(449)	6,678
Credit life and disability	13,889	(4,769)	18,658
	<u>\$27,596</u>	<u>\$(6,784)</u>	<u>\$34,380</u>

Net premiums earned were \$27.6 million and \$34.4 million for the three months ended June 30, 2014 and 2013, respectively. The decrease in net premiums earned is the result of the run-off of policies during the period. The premiums in our life and annuities segment are expected to reduce by approximately 15 to 20% per annum as the blocks of business continue to run-off and policies lapse. We recorded acquisition costs for the three months ended June 30, 2014 and 2013 of approximately

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\$4.0 million and \$3.9 million, respectively, associated with premiums earned by Pavonia. Substantially all of the net premiums earned in the three months ended June 30, 2014 and 2013 relate to the U.S. and Canadian business of the Pavonia companies.

For our life and annuities business, although we no longer write new business, our strategy differs from our non-life run-off business, in particular because we are unable to shorten the duration of the liabilities in this business through either early claims settlement, commutations or policy buy backs. Instead, we will hold the policies associated with the life and annuities business to their natural maturity or lapse and will pay claims as they fall due. We aim to earn profits in this segment through investments and operating efficiencies.

Net Investment Income and Net Realized and Unrealized Gains (Losses):

	Three Months Ended June 30,					
	Net Investment Income			Net Realized and Unrealized Gains (Losses)		
	2014	Variance	2013	2014	Variance	2013
(in thousands of U.S. dollars)						
Total	\$ 9,952	\$ (120)	\$ 10,072	\$ 4,263	\$ 14,944	\$(10,681)

Net investment income for the life and annuities segment for each of the three months ended June 30, 2014 and 2013 was \$10.0 million.

Net realized and unrealized gains (losses) for the three months ended June 30, 2014 and 2013 were \$4.3 million and (\$10.7) million, respectively. The increase in net realized and unrealized gains of \$14.9 million was primarily due to unrealized gains on fixed maturity investments in respect of the Pavonia companies. The gains were mostly due to marginal declines in the longer end of the U.S. yield curve versus increases in yields in the previous year.

The current operations of one of the Pavonia companies relates solely to periodic payment annuities. We have a long duration held-to-maturity investment portfolio to manage the cash flow obligations of these annuities. This held-to-maturity portfolio is carried at amortized cost and as such we would not anticipate any unrealized gains or losses on the portfolio. The carrying value of the held-to-maturity portfolio comprises approximately 70% of the Pavonia investments. The remaining 30% of our Pavonia investments comprise fixed maturity investments classified as trading securities, which relate to our non-periodic payment annuity business.

Annualized Returns

The table below presents the annualized investment returns (inclusive of net investment income and net realized and unrealized gains (losses), earned by the life and annuities segment on its cash and investments for the three months ended June 30, 2014 and 2013:

	Annualized Return		Average Cash and Investment Balances	
	2014	2013	2014	2013
Cash and fixed maturity investments	4.29%	(0.18)%	\$1,304,140	\$1,382,679
Other investments and equities	5.99%	— %	15,478	—
Combined overall	4.31%	(0.18)%	\$1,319,618	\$1,382,679

The average credit ratings of our fixed maturity investments of our life and annuities segment as at both June 30, 2014 and 2013 were A+.

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Life and Annuity Policy Benefits:

	Three Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Periodic payment annuity benefits paid	\$15,315	\$	\$12,695
Reductions in periodic payment annuity benefit reserves	(7,271)		(6,406)
Net change in periodic payment annuity benefit reserves	8,044	(1,755)	6,289
Net life claims benefits paid	19,435		17,383
Net change in life claims benefit reserves	(3,640)		(612)
Amortization of fair value adjustments	3,893		2,502
Net ultimate change in life benefit reserves	19,688	(415)	19,273
Total	<u>\$27,732</u>	<u>\$(2,170)</u>	<u>\$25,562</u>

Life and annuity policy benefits were \$27.7 million and \$25.6 million for the three months ended June 30, 2014 and 2013, respectively. The increase is primarily attributable to periodic payment annuity benefits paid, mostly due to an increase in scheduled settlements processed in the period. Net ultimate change in life benefit reserves of \$19.7 million in the three months ended June 30, 2014 was comprised of net life claims benefits paid of \$19.4 million and amortization of fair value adjustments of \$3.9 million, partially offset by net change in life claims benefit reserves of \$3.6 million.

Salaries and Benefits:

	Three Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Total	<u>\$2,394</u>	<u>\$(1,333)</u>	<u>\$1,061</u>

Salaries and benefits costs for the life and annuities segment were \$2.4 million and \$1.1 million for the three months ended June 30, 2014 and 2013, respectively. The increase for the three months ended June 30, 2014 was largely attributable to the transition of employees from the seller of Pavonia to us over the course of the three months ended June 30, 2013. Because individuals transitioned to us at various dates in 2013, the comparative period did not contain an entire three months of salaries and benefits for the Pavonia employees.

General and Administrative Expenses:

	Three Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Total	<u>\$2,761</u>	<u>\$ 1,771</u>	<u>\$4,532</u>

General and administrative expenses for the life and annuities segment were \$2.8 million and \$4.5 million for the three months ended June 30, 2014 and 2013, respectively. The decrease in expenses for the three months ended June 30, 2014 is primarily attributable to non-recurring costs incurred in 2013 in relation to the transition of the Pavonia business. During the three months ended June 30, 2013, the Pavonia employees generally worked pursuant to a transition services agreement which was treated as general and administrative expenses by Pavonia.

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Six Months Ended June 30, 2014

The following is a discussion and analysis of the results of operations for our life and annuities segment for the six months ended June 30, 2014 and 2013 which are summarized below:

	Six Months Ended June 30,	
	2014	2013
	(in thousands of U.S. dollars)	
INCOME		
Net premiums earned	\$54,088	\$ 35,121
Fees and commission income	34	—
Net investment income	19,941	10,344
Net realized and unrealized gains (losses)	<u>9,314</u>	<u>(10,839)</u>
	<u>83,377</u>	<u>34,626</u>
EXPENSES		
Life and annuity policy benefits	54,541	26,322
Acquisition costs	7,558	3,901
Salaries and benefits	4,403	1,207
General and administrative expenses	5,113	6,244
Interest expense	886	475
Net foreign exchange (gains) losses	<u>(67)</u>	<u>193</u>
	<u>72,434</u>	<u>38,342</u>
EARNINGS (LOSS) BEFORE INCOME TAXES	10,943	(3,716)
INCOME TAXES	(3,841)	(28)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	\$ 7,102	\$ (3,744)

For the life and annuities segment, net earnings (loss) attributable to Enstar Group Limited increased by \$10.8 million, from \$(3.7) million for the six months ended June 30, 2013 to \$7.1 million for the six months ended June 30, 2014.

Net Premiums Earned:

	Six Months Ended June 30,	
	2014	Variance
	(in thousands of U.S. dollars)	
Term life insurance	\$15,423	\$ 5,638
Assumed life reinsurance	10,497	3,819
Credit life and disability	<u>28,168</u>	<u>9,510</u>
	<u>\$54,088</u>	<u>\$18,967</u>
		\$35,121

Net premiums earned were \$54.1 million and \$35.1 million for the six months ended June 30, 2014 and 2013, respectively. The increase in net premiums earned is the result of three additional months of premiums from Pavonia in 2014 as compared to 2013 (we acquired Pavonia on March 31, 2013). We recorded acquisition costs for the three months ended June 30, 2014 and 2013 of approximately \$7.6 million and \$3.9 million, respectively, associated with premiums earned by Pavonia. Substantially all of the premiums earned relate to the U.S. and Canadian business of the Pavonia companies.

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Net Investment Income and Net Realized and Unrealized Gains (Losses):

	Six Months Ended June 30,					
	Net Investment Income			Net Realized and Unrealized Gains (Losses)		
	2014	Variance	2013	2014	Variance	2013
(in thousands of U.S. dollars)						
Total	\$19,941	\$ 9,597	\$10,344	\$9,314	\$ 20,153	\$ (10,839)

Net investment income for the life and annuities segment for the six months ended June 30, 2014 and 2013 was \$19.9 million and \$10.3 million, respectively. The increase was primarily due to the inclusion of the Pavonia companies for the full six months for 2014. These cash and fixed maturity investments were acquired on March 31, 2013.

Net realized and unrealized gains (losses) for the six months ended June 30, 2014 and 2013 were \$9.3 million and (\$10.8) million, respectively. The increase in net realized and unrealized gains of \$20.1 was primarily due to unrealized gains on fixed maturity investments in respect of the Pavonia companies. The gains were mostly due to marginal declines in the longer end of the U.S. yield curve versus increases in yields in the previous year.

Annualized Returns

The table below presents the annualized investment returns (inclusive of net investment income and net realized and unrealized gains (losses)) earned by the life and annuities segment on its cash and investments for the six months ended June 30, 2014 and 2013:

	Annualized Return		Average Cash and Investment Balances	
	2014	2013	2014	2013
Cash and fixed maturity investments	4.27%	(0.14)%	\$ 1,324,532	\$ 716,871
Other investments and equities	14.31%	— %	13,703	—
Combined overall	4.37%	(0.14)%	\$ 1,338,235	\$ 716,871

The average credit ratings of our fixed maturity investments for the life and annuities segment for both June 30, 2014 and 2013 was A+.

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Life and Annuity Policy Benefits:

	Six Months Ended June 30,		
	2014	Variance	2013
	(in thousands of U.S. dollars)		
Periodic payment annuity benefits paid	\$ 28,705		\$12,695
Reductions in periodic payment annuity benefit reserves	(14,506)		(6,406)
Net change in periodic payment annuity benefit reserves	14,199	(7,910)	6,289
Net life claims benefits paid	41,870		17,383
Net change in life claims benefit reserves	(9,219)		148
Amortization of fair value adjustments	7,691		2,502
Net ultimate change in life benefit reserves	40,342	(20,309)	20,033
Total	\$ 54,541	\$(28,219)	\$26,322

Life and annuity policy benefits were \$54.5 million and \$26.3 million for the six months ended June 30, 2014 and 2013, respectively. The increase is primarily attributable to the inclusion of the Pavonia business results for six months in 2014 as opposed to three months in 2013. The annuity business incurred some additional periodic payment annuity benefits in the six months ended June 30, 2014, relating to an increase in scheduled settlements processed during the period. Net ultimate change in life benefit reserves in the six months ended June 30, 2014 of \$40.3 million was comprised of net life claims benefits paid of \$41.9 million and amortization of fair value adjustments of \$7.7 million, partially offset by net change in life claims benefit reserves of \$9.2 million.

Salaries and Benefits:

	Six Months Ended June 30,		
	2014	Variance	2013
(in thousands of U.S. dollars)			
Total	\$4,403	\$(3,196)	\$1,207

Salaries and benefits costs for the life and annuities segment related to our life and annuities segment were \$4.4 million and \$1.2 million for the six months ended June 30, 2014 and 2013, respectively. The increase in salaries and benefits expenses for the six months ended June 30, 2014 as compared to the same period in 2013 was primarily attributable to having six months of Pavonia expenses in 2014 as compared to three months in 2013. In addition, during the three months ended June 30, 2013, the Pavonia employees generally worked pursuant to a transition services agreement, which was treated as general and administrative expense by Pavonia.

General and Administrative Expenses:

	Six Months Ended June 30,		
	2014	Variance	2013
(in thousands of U.S. dollars)			
Total	\$5,113	\$ 1,131	\$6,244

General and administrative expenses for the life and annuities segment were \$5.1 million and \$6.2 million for the six months ended June 30, 2014 and 2013, respectively. The decrease in expenses for the six months ended June 30, 2014 is primarily attributable to non-recurring salary related transition costs incurred during the six months ended June 30, 2013.

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Liquidity and Capital Resources

Our capital management strategy is to preserve sufficient capital to enable us to make future acquisitions while maintaining a conservative investment strategy. As we are a holding company and have no substantial operations of our own, our assets consist primarily of investments in subsidiaries. The potential sources of the cash flows to Enstar as a holding company consist of dividends, advances and loans from our subsidiary companies. Most of those subsidiaries are regulated entities, and restrictions on their ability to pay dividends and make other distributions may apply.

At June 30, 2014, we had total cash and cash equivalents, restricted cash and cash equivalents and investments of \$7.89 billion, compared to \$6.56 billion at December 31, 2013. Our cash and cash equivalent portfolio is comprised mainly of cash, high-grade fixed deposits, commercial paper with maturities of less than three months and money market funds.

Reinsurance Balances Recoverable

Our acquired insurance and reinsurance subsidiaries, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed. Our insurance and reinsurance subsidiaries 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.

On an annual basis, both Torus and Atrium purchase a tailored outwards reinsurance program designed to manage their risk profiles. The majority of Atrium's total third party reinsurance cover is with Lloyd's Syndicates or other highly rated reinsurers. The majority of Torus' total third party reinsurance cover is with highly rated reinsurers or is collateralized by letters of credit.

As of June 30, 2014 and December 31, 2013, we had, excluding reinsurance recoverables related to our life and annuities segment, reinsurance balances recoverable of \$1.50 billion and \$1.33 billion, respectively. The increase of \$165.6 million in reinsurance balances recoverable was primarily a result of the Torus acquisition, partially offset by commutations and cash collections made during the period ended June 30, 2014.

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

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

[Table of Contents](#)**Cash Flows**

The following table summarizes our consolidated cash flows from operating, investing and financing activities for the six months ended June 30, 2014 and 2013:

Total cash provided by (used in):	Six Months Ended June 30,	
	2014	2013
	(in thousands of U.S. dollars)	
Operating activities	\$ 324,197	\$ (11,423)
Investing activities	(158,314)	(254,889)
Financing activities	217,104	225,260
Effect of exchange rate changes on cash	1,327	3,059
Net increase (decrease) in cash and cash equivalents	384,314	(37,993)
Cash and cash equivalents, beginning of period	643,841	654,890
Cash and cash equivalents, end of period	<u>\$ 1,028,155</u>	<u>\$ 616,897</u>

See "Item 1. Financial Statements — Unaudited Condensed Consolidated Statements of Cash Flows for the Six Month Periods Ended June 30, 2014 and 2013" for further information.

Operating

Net cash provided by our operating activities for the six month period ended June 30, 2014 was \$324.2 million compared to net cash used of \$11.4 million for the six month period ended June 30, 2013. This \$335.6 million increase was due primarily to the following:

- (i) a decrease in the net changes in assets and liabilities of \$240.3 million between 2014 and 2013; offset by a
- (ii) an increase of \$256.5 million in sales and maturities of trading securities between 2014 and 2013; and
- (iii) a decrease of \$338.6 million in purchases of trading securities between 2014 and 2013.

Investing

Investing cash flows consist primarily of net proceeds on the sale and purchase of available-for-sale and other investments. Net cash used in investing activities was \$158.3 million during the six month period ended June 30, 2014 compared to \$254.9 million during the six month period ended June 30, 2013. The decrease of \$96.6 million between 2014 and 2013 was due primarily to the following:

- (i) a decrease of \$321.5 million in net cash used for acquisitions between 2014 and 2013. During the six months ended June 30, 2014, we acquired cash balances in excess of cash used to fund acquisitions, as compared to the acquisitions we completed in 2013; partially offset by
- (ii) a decrease of \$81.2 million in the sales and maturities of available-for-sale securities between 2014 and 2013;
- (iii) an increase of \$93.4 million in the funding of other investments between 2014 and 2013; and
- (iv) an increase of \$71.0 million in the purchase of available-for-sale securities between 2014 and 2013.

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Financing

Net cash provided by financing activities was \$217.1 million during the six month period ended June 30, 2014 compared to \$225.3 million during the six month period ended June 30, 2013. The decrease of \$8.2 million in cash provided by financing activities was attributable primarily to the following:

- (i) a decrease of \$157.0 million in cash received attributable to bank loans between 2014 and 2013 due primarily to there being no acquisition borrowing required in 2014; and
- (ii) an increase of \$133.3 million in the repayment of bank loans between 2014 and 2013; and
- (iii) a distribution of capital to noncontrolling interests of \$10.0 million in 2014 compared to \$nil in 2013; partially offset by
- (iv) an increase in contributions by noncontrolling and redeemable noncontrolling interests of \$290.3 million primarily associated with the Torus acquisition.

Investments

Aggregate invested assets, comprising cash and cash equivalents, restricted cash and cash equivalents, fixed maturity investments, equities and other investments, were \$7.89 billion as of June 30, 2014 compared to \$6.56 billion as of December 31, 2013, an increase of \$1.3 billion. The increase in cash and invested assets resulted principally from the completion of the acquisition of Torus.

We hold: (i) trading portfolios of fixed maturity investments, short-term investments and equities; (ii) available-for-sale portfolios of fixed maturity and short-term investments; and (iii) a held-to-maturity portfolio of fixed maturity investments. Our available-for-sale and trading portfolios are recorded at fair value.

Our held-to-maturity portfolio relates to our periodic payment annuities, business within our life and annuities segment. In an effort to match the expected cash flow requirements of the long-term liabilities associated with the business, we invest a portion of our fixed maturity investments in longer duration securities that we intend to hold to maturity. We classify these securities as held-to-maturity in our unaudited condensed consolidated balance sheet. This held-to-maturity portfolio is recorded at amortized cost. As a result, we do not record changes in the fair value of this portfolio, which should reduce the impact on shareholders' equity of fluctuations in fair value of those investments.

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The table below shows the aggregate amounts of our investments carried at fair value as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Fair Value (in thousands of U.S. dollars)	% of Total Fair Value	Fair Value (in thousands of U.S. dollars)	% of Total Fair Value
U.S. government and agency	\$ 717,700	13.1%	\$ 468,289	10.0%
Non-U.S. government	550,573	10.0%	562,516	12.1%
Corporate	2,343,759	42.7%	2,201,579	47.2%
Municipal	32,593	0.6%	41,034	0.9%
Residential mortgaged-backed	361,885	6.6%	235,964	5.1%
Commercial mortgage-backed	161,822	3.0%	114,637	2.5%
Asset-backed	457,420	8.3%	285,066	6.1%
Fixed maturity investments	4,625,752	84.3%	3,909,085	83.9%
Other investments	716,303	13.1%	569,293	12.2%
Equities—U.S.	89,830	1.6%	115,285	2.5%
Equities—International	57,312	1.0%	66,748	1.4%
Total investments	<u>\$5,489,197</u>	<u>100.0%</u>	<u>\$4,660,411</u>	<u>100.0%</u>

The table below shows the aggregate fair values of our investments classified as held-to-maturity as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Fair Value (in thousands of U.S. dollars)	% of Total Fair Value	Fair Value (in thousands of U.S. dollars)	% of Total Fair Value
U.S. government and agency	\$ 19,171	2.3%	\$ 18,132	2.3%
Non-U.S. government	45,473	5.4%	22,327	2.8%
Corporate	780,355	92.3%	759,100	94.9%
Total investments	<u>\$ 844,999</u>	<u>100.0%</u>	<u>\$ 799,559</u>	<u>100.0%</u>

As at June 30, 2014, we held investments on our balance sheet totaling \$6.34 billion compared to \$5.52 billion at December 31, 2013, with net unrealized appreciation included in accumulated comprehensive income of \$3.3 million at June 30, 2014 compared to \$3.1 million at December 31, 2013. As at June 30, 2014, we had approximately \$3.6 billion of restricted assets compared to approximately \$2.9 billion at December 31, 2013.

Across all 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 new business needs.

For our non-life run-off segment, our strategy of commuting our liabilities has the potential to accelerate the natural payout of losses. Therefore, we maintain a relatively short-duration investment portfolio in order to provide liquidity for commutation opportunities and avoid having to liquidate longer dated investments. Accordingly, the majority of our investment portfolio consists of highly rated fixed maturities, including U.S. government and agency investments, highly rated sovereign and supranational investments, high-grade corporate investments, and mortgage-backed and asset-backed investments. We allocate a portion of our investment portfolio to other investments, including private equity funds, fixed income funds, fixed income hedge funds, equity funds and a real estate debt fund. At June 30, 2014, these other investments totaled \$716.3 million, or 11.3%, of our total balance sheet investments (December 31, 2013: \$569.3 million or 10.3%).

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For our life and annuities segment, we do not commute our policy benefits for life and annuity contracts liabilities and, as a result, we maintain a longer duration investment portfolio that attempts to match the cash flows and duration of our liability profile. Accordingly, the majority of this portfolio consists of highly rated fixed maturity investments, primarily corporate bonds.

Our fixed maturity investments associated with our PPA business are primarily highly rated corporate bonds with which we attempt to match duration and cash flows to the liability profile for this business. As these fixed maturity investments are classified as held-to-maturity, we invest surplus cash flows from maturities into longer dated fixed maturities. As at June 30, 2014, the duration of our fixed maturity investment portfolio associated with our PPA business was shorter than the liabilities, as a significant amount of the liabilities extend beyond 30 years and it is difficult, due to limited investment options, to match duration and cash flows beyond that period.

Our fixed maturity investments associated with our non-PPA life business are primarily highly rated corporate bonds with which we attempt to match duration and cash flows to the liability profile for this business (the non-PPA life business has a short-duration liability profile). These fixed maturity investments are classified as trading, and therefore we may sell existing securities to buy higher yielding securities and funds in the future. As at June 30, 2014, the duration of our fixed maturity investment portfolio associated with our non-PPA life business was shorter than the liabilities, however, we have the discretion to change this in the future.

Fixed Maturity and Short-term Investments

The maturity distribution for our fixed maturity and short-term investments held as of June 30, 2014 and December 31, 2013 was as follows:

	June 30, 2014		December 31, 2013	
	Fair Value	% of Total	Fair Value	% of Total
(in thousands of U.S. dollars)				
Due in one year or less	\$ 910,138	16.6%	\$ 871,881	18.5%
Due after one year through five years	2,488,274	45.5%	2,114,772	44.9%
Due after five years through ten years	431,073	7.9%	478,033	10.2%
Due after ten years	660,139	12.1%	608,291	12.9%
	4,489,624	82.1%	4,072,977	86.5%
Residential mortgage-backed	361,885	6.6%	235,964	5.0%
Commercial mortgage-backed	161,822	2.9%	114,637	2.4%
Asset-backed	457,420	8.4%	285,066	6.1%
Total	<u>\$5,470,751</u>	<u>100.0%</u>	<u>\$4,708,644</u>	<u>100.0%</u>

As at June 30, 2014 and December 31, 2013, our fixed maturity and short-term investment portfolios had an average credit quality rating of AA- and A+, respectively. At June 30, 2014 and December 31, 2013, our fixed maturity investments rated BBB or lower comprised 9.0% and 9.5% of our total investment portfolio, respectively.

At June 30, 2014, we had \$238.6 million of short-term investments (December 31, 2013: \$313.5 million). Short-term investments are managed as part of our investment portfolio and have a maturity of one year or less when purchased. Short-term investments are carried at fair value.

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The following tables summarize the composition of the amortized cost and fair value of our fixed maturity investments, short-term investments, equities and other investments carried at fair value at the date indicated by ratings as assigned by major rating agencies.

At June 30, 2014	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Non-Investment Grade	Not Rated					
Fixed maturity and short-term investments														
 (in thousands of U.S. dollars)														
U.S. government & agency	\$ 715,099	\$ 717,700	13.1%	\$ 875	\$ 710,825	\$ 6,000	\$ 0	\$ 0	\$ 0					
Non-U.S. government	540,169	550,573	10.0%	197,058	203,676	107,112	30,123	12,604	0					
Corporate	2,322,156	2,343,759	42.7%	131,032	646,638	1,161,387	350,492	32,090	22,120					
Municipal	32,266	32,593	0.6%	8,757	15,927	7,909	0	0	0					
Residential mortgage-backed	360,156	361,885	6.6%	28,071	321,598	10,309	497	1,405	5					
Commercial mortgage-backed	161,939	161,822	3.0%	85,566	24,029	29,338	19,722	3,167	0					
Asset-backed	455,664	457,420	8.3%	286,755	68,343	28,936	11,420	61,952	14					
Total fixed maturity and short-term investments	<u>\$4,587,449</u>	<u>4,625,752</u>	<u>84.3%</u>	<u>738,114</u>	<u>1,991,036</u>	<u>1,350,991</u>	<u>412,254</u>	<u>111,218</u>	<u>22,139</u>					
				16.0%	43.0%	29.2%	8.9%	2.4%	0.5%					
Equities														
U.S.	89,830	1.6%	0	0	0	0	0	0	89,830					
International	57,312	1.0%	0	0	0	0	0	0	57,312					
Total equities	<u>147,142</u>	<u>2.6%</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>147,142</u>					
Other investments														
Private equity funds	215,152	3.9%	0	0	0	0	0	0	215,152					
Fixed income funds	223,445	4.1%	0	0	0	0	0	0	223,445					
Fixed income hedge funds	66,028	1.2%	0	0	0	0	0	0	66,028					
Equity fund	162,655	3.0%	0	0	0	0	0	0	162,655					
Real estate debt fund	33,231	0.6%	0	0	0	0	0	0	33,231					
CLO equities	10,800	0.2%	0	0	0	0	0	0	10,800					
Other	4,992	0.1%	0	0	0	0	0	0	4,992					
Total other investments	<u>716,303</u>	<u>13.1%</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>716,303</u>					
Total investments	<u>\$5,489,197</u>	<u>100.0%</u>	<u>\$738,114</u>	<u>\$1,991,036</u>	<u>\$1,350,991</u>	<u>\$ 412,254</u>	<u>\$ 111,218</u>	<u>\$ 885,584</u>						
				13.5%	36.3%	24.6%	7.5%	2.0%	16.1%					

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At December 31, 2013	Amortized Cost	Fair Value	% of Total Investments	AAA Rated	AA Rated	A Rated	BBB Rated	Non- Investment Grade	Not Rated
(in thousands of U.S. dollars)									
Fixed maturity and short-term investments									
U.S. government & agency	\$ 468,198	\$ 468,289	10.0%	\$ 4,391	\$ 458,477	\$ 434	\$ —	\$ —	\$ 4,987
Non-U.S. government	553,724	562,516	12.1%	215,224	208,322	115,423	11,095	12,452	—
Corporate	2,197,955	2,201,579	47.2%	143,552	542,216	1,052,315	388,815	26,507	48,174
Municipal	40,889	41,034	0.9%	8,500	25,355	7,179	—	—	—
Residential mortgage-backed	236,984	235,964	5.1%	12,596	204,217	7,507	3,960	809	6,875
Commercial mortgage-backed	115,351	114,637	2.5%	38,081	31,893	29,631	8,826	6,206	—
Asset-backed	283,940	285,066	6.1%	207,146	34,808	13,260	4,733	7,174	17,945
Total fixed maturity and short-term investments	<u>\$3,897,041</u>	<u>3,909,085</u>	83.9%	<u>629,490</u>	<u>1,505,288</u>	<u>1,225,749</u>	<u>417,429</u>	<u>53,148</u>	<u>77,981</u>
				16.1%	38.5%	31.3%	10.7%	1.4%	2.0%
Equities									
U.S.	115,285	2.5%	—	—	—	—	—	—	115,285
International	66,748	1.4%	—	—	—	—	—	—	66,748
Total equities	<u>182,033</u>	<u>3.9%</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>182,033</u>
				0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Other investments									
Private equity funds	161,229	3.5%	—	—	—	—	—	—	161,229
Fixed income funds	194,375	4.2%	—	—	—	—	—	—	194,375
Fixed income hedge funds	68,157	1.4%	—	—	—	—	—	—	68,157
Equity fund	109,355	2.3%	—	—	—	—	—	—	109,355
Real estate debt fund	32,113	0.7%	—	—	—	—	—	—	32,113
Other	4,064	0.1%	—	—	—	—	—	—	4,064
Total other investments	<u>569,293</u>	<u>12.2%</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>569,293</u>
				0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Total investments	<u>\$4,660,411</u>	<u>100.0%</u>	<u>\$629,490</u>	<u>\$1,505,288</u>	<u>\$1,225,749</u>	<u>\$ 417,429</u>	<u>\$ 53,148</u>	<u>\$ 829,307</u>	<u>17.8%</u>
				13.5%	32.3%	26.3%	9.0%	1.1%	

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The following tables summarizes the composition of the amortized cost and fair value of our held-to-maturity fixed maturity investments as at June 30, 2014 and December 31, 2013 by ratings as assigned by major rating agencies.

<u>At June 30, 2014</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>% of Total Investments</u>	<u>AAA Rated</u>	<u>AA Rated</u>	<u>A Rated</u>	<u>BBB Rated</u>	<u>Non-Investment Grade</u>	<u>Not Rated</u>
	(in thousands of U.S. dollars)								
Fixed maturity investments									
U.S. government & agency	\$ 19,736	\$ 19,171	2.3%	\$ 6,468	\$ 12,642	\$ 0	\$ 0	\$ 0	\$ 63
Non-U.S. government	45,943	45,473	5.4%	0	30,329	15,145	0	0	0
Corporate	787,556	780,355	92.3%	47,069	209,555	477,468	35,408	10,456	396
Total fixed maturity investments	<u>\$ 853,235</u>	<u>\$844,999</u>	<u>100.0%</u>	<u>\$53,537</u>	<u>\$252,526</u>	<u>\$492,613</u>	<u>\$35,408</u>	<u>\$ 10,456</u>	<u>\$ 459</u>
				6.3%	29.9%	58.3%	4.2%	1.2%	0.1%

<u>At December 31, 2013</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>% of Total Investments</u>	<u>AAA Rated</u>	<u>AA Rated</u>	<u>A Rated</u>	<u>BBB Rated</u>	<u>Non-Investment Grade</u>	<u>Not Rated</u>
	(in thousands of U.S. dollars)								
Fixed maturity investments									
U.S. government & agency	\$ 19,992	\$ 18,132	2.3%	\$ —	\$ 18,058	\$ —	\$ —	\$ —	\$ 74
Non-U.S. government	23,592	22,327	2.8%	—	22,327	—	—	—	—
Corporate	815,803	759,100	94.9%	44,552	198,803	463,000	47,157	5,125	462
Total fixed maturity investments	<u>\$ 859,387</u>	<u>\$799,559</u>	<u>100.0%</u>	<u>\$44,552</u>	<u>\$239,188</u>	<u>\$463,000</u>	<u>\$47,157</u>	<u>\$ 5,125</u>	<u>\$ 536</u>
				5.6%	29.9%	57.9%	5.9%	0.6%	0.1%

Eurozone Exposure

At June 30, 2014, we did not own any investments in fixed maturity investments (which includes bonds that are classified as cash and cash equivalents) or fixed income funds issued by the sovereign governments of Portugal, Italy, Ireland, Greece or Spain. Our fixed maturity investments and fixed income funds exposures to Eurozone Governments (which includes regional and municipal governments including guaranteed agencies) as at June 30, 2014 by rating are highlighted in the following table:

	Ratings				Total
	AAA	AA	A	Not Rated	
	(in thousands of U.S. dollars)				
Germany	\$50,062	\$22,108	\$ —	\$ —	\$ 72,170
Supranational	7,588	9,067	—	—	16,655
Netherlands	7,479	16,140	6,088	—	29,707
France	—	15,171	8,047	—	23,218
Finland	2,989	—	—	—	2,989
Belgium	—	25,822	—	—	25,822
Austria	—	1,791	—	—	1,791
	68,118	90,099	14,135	0	172,352
Euro Region Government Funds	0	0	0	12,336	12,336
	<u>\$68,118</u>	<u>\$90,099</u>	<u>\$14,135</u>	<u>\$ 12,336</u>	<u>\$184,688</u>

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Our fixed maturity investments exposure to Eurozone Governments (which include regional and municipal governments including guaranteed agencies) as at June 30, 2014 by maturity date are highlighted in the following table. Our fixed income fund holdings have daily liquidity and are not included in the maturity table below.

	By Maturity Date					Total
	3 months or less	3 to 6 months	6 months to 1 year	1 to 2 years	more than 2 years	
	(in thousands of U.S. dollars)					
Germany	\$ 1,370	\$12,943	\$ 1,483	\$20,511	\$ 35,863	\$ 72,170
Supranational	—	—	2,526	6,673	7,456	16,655
Netherlands	1,508	—	3,306	4,444	20,449	29,707
France	—	—	4,294	3,324	15,600	23,218
Finland	—	515	—	450	2,024	2,989
Belgium	—	—	—	2,738	23,084	25,822
Austria	—	—	—	653	1,138	1,791
	<u>\$ 2,878</u>	<u>\$13,458</u>	<u>\$ 11,609</u>	<u>\$38,793</u>	<u>\$105,614</u>	<u>\$172,352</u>

At June 30, 2014, we owned investments in corporate securities (which includes bonds that are classified as cash and cash equivalents) of issuers where the ultimate parent company was located within the Eurozone. This includes securities that were issued by subsidiaries whose location was outside of the Eurozone. Our exposures as at June 30, 2014 by country and listed by rating, sector and maturity date is highlighted in the following tables:

	Ratings				Total
	AAA	AA	A	BBB	
	(in thousands of U.S. dollars)				
Germany	\$ 4,950	\$ 1,444	\$ 65,947	\$10,584	\$ 82,925
Belgium	2,698	—	42,376	—	45,074
Netherlands	10,944	55,381	29,165	7,297	102,787
France	7,579	28,261	18,223	8,816	62,879
Ireland	474	10,968	—	—	11,442
Spain	—	—	—	19,696	19,696
Italy	—	—	19,777	5,620	25,397
Luxembourg	5,900	4,633	721	637	11,891
Finland	454	—	—	—	454
	<u>\$32,999</u>	<u>\$100,687</u>	<u>\$176,209</u>	<u>\$52,650</u>	<u>\$362,545</u>

	Sector						Total
	Financial	Energy	Industrial	Telecom	Utility	Other	
	(in thousands of U.S. dollars)						
Germany	\$ 18,598	\$ 1,406	\$ 55,862	\$ 3,418	\$ 1,665	\$ 1,976	\$ 82,925
Belgium	1,370	—	—	—	—	43,704	45,074
Netherlands	60,450	13,494	18,187	—	213	10,443	102,787
France	19,831	—	34,170	425	4,666	3,787	62,879
Ireland	9,041	—	—	—	—	2,401	11,442
Spain	6,684	—	—	8,746	3,081	1,185	19,696
Italy	1,245	9,081	10,696	—	4,375	—	25,397
Luxembourg	721	4,633	637	—	—	5,900	11,891
Finland	454	—	—	—	—	—	454
	<u>\$ 118,394</u>	<u>\$ 28,614</u>	<u>\$ 119,552</u>	<u>\$ 12,589</u>	<u>\$ 14,000</u>	<u>\$ 69,396</u>	<u>\$ 362,545</u>

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	By Maturity Date						Total
	3 months or less	3 to 6 months	6 months to 1 year	1 to 2 years	more than 2 years		
	(in thousands of U.S. dollars)						
Germany	\$ 6,753	\$ 3,707	\$ 8,559	\$ 25,093	\$ 38,813	\$ 82,925	
Belgium	—	—	1,536	2,089	41,449	45,074	
Netherlands	1,794	16,178	10,971	15,467	58,377	102,787	
France	5,360	437	2,985	16,976	37,121	62,879	
Ireland	—	2,621	1,359	2,244	5,218	11,442	
Spain	4,455	—	3,302	5,959	5,980	19,696	
Italy	—	2,621	—	1,245	21,531	25,397	
Luxembourg	—	—	—	721	11,170	11,891	
Finland	—	—	—	454	—	454	
	<u>\$ 18,362</u>	<u>\$25,564</u>	<u>\$ 28,712</u>	<u>\$ 70,248</u>	<u>\$ 219,659</u>	<u>\$362,545</u>	

Fixed maturity investments issued by companies located in the United Kingdom and Switzerland are not included in the tables.

None of the fixed maturity investments we owned at June 30, 2014 were considered impaired and we do not expect to incur any significant losses on these securities.

Loans Payable

Our long-term debt consists of loan facilities used to partially finance certain of our acquisitions and significant new business transactions, and our revolving credit facility, or the EGL Revolving Credit Facility, which can be used for permitted acquisitions and for general corporate purposes. We draw down on the loan facilities at the time of an acquisition or significant new business transactions although in some circumstances we have made additional draw-downs to refinance existing debt of the acquired company.

We made the following repayments and borrowings under our loan facilities during the six months ended June 30, 2014:

EGL Revolving Credit Facility

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

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

Clarendon Facility

On March 17, 2014, we repaid \$13.0 million of the outstanding principal on the term facility related to our 2011 acquisition of Clarendon National Insurance Company, or the Clarendon Facility, reducing the outstanding principal as of June 30, 2014 to approximately \$66.0 million.

SeaBright Facility

On June 25, 2014, we fully repaid the remaining \$89.0 million of outstanding principal and accrued interest on the term facility related to the acquisition of SeaBright, or the SeaBright Facility. We had previously repaid \$22.0 million of the outstanding principal on the SeaBright Facility on March 31, 2014.

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Total amounts of loans payable outstanding, including accrued interest, as of June 30, 2014 and December 31, 2013 totaled \$386.2 million and \$452.4 million, respectively. As of June 30, 2014, all of the covenants relating to our two outstanding credit facilities (the Clarendon Facility and the EGL Revolving Credit Facility) were met.

Refer to Item 7 included in our Annual Report on Form 10-K for the year ended December 31, 2013 for a description of these credit facilities.

Aggregate Contractual Obligations

The following table shows our aggregate contractual obligations and commitments by time period remaining to due date as at June 30, 2014 and updates the table on page 114 of our Annual Report on Form 10-K for the year ended December 31, 2013:

	Total	Payments Due by Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
(in thousands of U.S. dollars)					
Operating Activities					
Estimated gross reserves for losses and loss adjustment expenses (1)	\$5,125.0	\$1,131.8	\$1,870.2	\$829.8	\$1,293.2
Policy benefits for life and annuity contracts (2)	2,611.1	83.4	152.0	138.6	2,237.1
Operating lease obligations	48.4	12.4	18.1	13.9	4.0
Investing Activities					
Investment commitments	115.6	47.9	60.4	7.3	—
Financing Activities					
Loan repayments (including estimated interest payments)	391.3	391.3	—	—	—
Total	\$8,291.4	\$1,666.8	\$2,100.7	\$989.6	\$3,534.3

(1) The reserves for losses and loss adjustment expenses 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 June 30, 2014 and do not take into account corresponding reinsurance recoverable amounts that would be due to us. Furthermore, reserves for losses and loss adjustment expenses recorded in the unaudited condensed consolidated financial statements as of June 30, 2014 are computed on a fair value basis, 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.

(2) Policy benefits for life and annuity contracts recorded in our unaudited condensed consolidated balance sheet as at June 30, 2014 of \$1,241.9 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 the fair value adjustments of the amount payable.

[Table of Contents](#)**Commitments and Contingencies****Investments**

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

Original Commitments	June 30, 2014			December 31, 2013		
	Commitments		(in thousands of U.S. dollars)	Original Commitments	Commitments	
	Funded	Unfunded			Funded	Unfunded
\$ 311,000	\$ 195,362	\$ 115,638	\$ 291,000	\$ 176,760	\$ 114,240	

Guarantees

As at June 30, 2014 and December 31, 2013, we had, in total, parental guarantees supporting the obligations of our subsidiary, Fitzwilliam Insurance Limited, in the amount of \$238.6 million and \$228.5 million, respectively.

Acquisitions and Significant New Business

We have entered into a definitive agreement with respect to the Reciprocal of America loss portfolio transfer, which is expected to close by the end of 2014 and which is described above in “—Significant New Business.”

Legal Proceedings

Refer to “Item 1. Legal Proceedings” of Part II of this Quarterly Report on Form 10-Q for a description of litigation matters.

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, 2013.

Off-Balance Sheet and Special Purpose Entity Arrangements

At June 30, 2014, we did not have any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

Non-GAAP Financial Measures

In “Segment Reporting—Arden” and “Segment Reporting—Torus” above, we provide loss ratio, acquisition cost ratio, other operating expense ratio, and the combined ratio in our discussions of the results for the Atrium and Torus segments in order to provide more complete information regarding our underwriting results for these businesses. The ratios are calculated by dividing the related expense by net earned premiums, and the combined ratio is the sum of these ratios. Our other operating expense ratio is considered to be a “non-GAAP” financial measure, which may be defined or calculated differently by other companies. We calculate this ratio by dividing the sum of general and administrative expenses and salaries and benefits attributable to Atrium/Arden and Torus, respectively, by net premiums earned. Other operating expense ratio excludes the expenses of the holding companies within the segments, such as holding company general and administrative expenses and salaries and benefits expenses, if any, that are not attributable to Atrium, Arden and Torus, respectively. We believe this is the most useful presentation because the excluded expenses are not incremental and/or directly attributable to the individual underwriting operations at

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these companies. The most directly comparable GAAP financial measure would be calculated by dividing the sum of all general and administrative expenses and salaries and benefits (if any) for the Atrium and Torus segments (including holding company expenses), respectively, by net premiums earned.

Cautionary Statement Regarding Forward-Looking Statements

This quarterly report contains 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.

Factors that could cause actual results to differ materially from those suggested by the forward looking statements 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;
- 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;
- continued availability of exit and finality opportunities provided by solvent schemes of arrangement;
- loss of key personnel;
- the ability of our subsidiaries to distribute funds to us and the resulting impact on our liquidity;
- changes in our plans, strategies, objectives, expectations or intentions, which may happen at any time at management's discretion;
- operational risks, including system or human failures and external hazards;

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- the risk that ongoing or future industry regulatory developments will disrupt our business, 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;
- risks relating to our acquisitions, including our ability to successfully price acquisitions, evaluate opportunities, address operational challenges, assimilate acquired companies into our internal control system, and support our planned growth;
- 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 agreements, which could affect our ability to complete acquisitions;
- 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 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, cyclical demand and pricing in the insurance and reinsurance markets;
- our ability to implement our strategies relating to the active underwriting market;
- risks relating to 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, 2013, as well as in Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q and in the other materials filed and to be filed with the U.S. Securities and Exchange Commission. 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 DISCLOSURE ABOUT MARKET RISK

Our balance sheets include a substantial amount of assets and, to a lesser extent, liabilities, whose fair values are subject to market risks. Market risk represents the potential for an economic loss due to adverse changes in the fair value of a financial instrument. Our primary market risks are interest rate risk, credit risk, equity price risk, and foreign currency exchange rate risk. The following provides an analysis of the potential effects that these market risk exposures could have on our future earnings. This analysis is based on estimated changes. Actual results could differ significantly from amounts stated below, and our analysis should not be construed as our prediction for future market events.

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Interest Rate Risk

We have calculated the effect that an immediate parallel shift in the U.S. interest rate yield curve would have on our cash and fixed maturity investments at June 30, 2014 and December 31, 2013. The modeling of this effect was performed on cash and fixed maturity investments classified as trading and available-for-sale. The results of this analysis are summarized in the table below.

Interest Rate Movement Analysis on Market Value of Cash and Investments Classified as Trading and Available-for-Sale

	Interest Rate Shift in Basis Points				
	-100	-50	0	+50	+100
	(in millions of U.S. dollars)				
At June 30, 2014					
Total Market Value	\$6,225	\$6,200	\$6,168	\$6,131	\$6,096
Market Value Change from Base	0.9%	0.5%	0%	(0.6)%	(1.2)%
Change in Unrealized Value	\$ 57	\$ 32	\$ 0	\$ (37)	\$ (72)
At December 31, 2013					
	-100	-50	0	+50	+100
	(in millions of U.S. dollars)				
Total Market Value	\$4,999	\$4,979	\$4,951	\$4,919	\$4,888
Market Value Change from Base	1.0%	0.6%	0%	(0.7)%	(1.3)%
Change in Unrealized Value	\$ 48	\$ 28	\$ 0	\$ (32)	\$ (63)

Credit Risk

As a holder of fixed maturity investments and mutual funds, 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. At June 30, 2014, approximately 55.5% of our fixed maturity investments and short-term investment portfolio was rated AA or higher by a major rating agency (December 31, 2013: 51.4%) with 10.4% (December 31, 2013: 11.1%) rated BBB or lower. The portfolio as a whole had an average credit quality rating of AA- (December 31, 2013: A+). In addition, we manage our portfolio pursuant to guidelines that follow what we believe are 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.

We also have exposure to credit risk as it relates to our reinsurance balances recoverable. Our acquired reinsurance subsidiaries, prior to acquisition, used retrocessional agreements to reduce their exposure to the risk of insurance and reinsurance assumed. Our reinsurance subsidiaries 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.

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

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Equity Price Risk

Our portfolio of equity investments, including the equity funds 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 June 30, 2014 was \$309.8 million (December 31, 2013: \$291.4 million). At June 30, 2014, the impact of a 10% decline in the overall market prices of our equities at risk would be \$31.0 million (December 31, 2013: \$29.1 million), on a pre-tax basis.

Foreign Currency Risk

Through our subsidiaries located in various foreign countries, we conduct our insurance and reinsurance operations in a variety of non-U.S. currencies. As the functional currency for the majority of our subsidiaries is the U.S. dollar, fluctuations in foreign currency exchange rates related to these subsidiaries will have a direct impact on the valuation of our assets and liabilities denominated in local currencies. All changes in foreign exchange rates, with the exception of non-U.S. dollar denominated investments classified as available-for-sale, are recognized currently in foreign exchange gains (losses) in our consolidated statements of earnings.

We have exposure to foreign currency risk due to our ownership of our Irish, U.K. and Australian subsidiaries whose functional currencies are the Euro, British pound and Australian dollar.

The foreign exchange gain or loss resulting from the translation of our subsidiaries' financial statements (expressed in Euro, British pound and Australian dollar functional currency) into U.S. dollars is classified in the currency translation adjustment account, which is a component of accumulated other comprehensive income in shareholders' equity.

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, and to selectively use foreign currency exchange contracts. The matching process is carried out quarterly in arrears and therefore any mismatches occurring in the period may give rise to foreign exchange gains and losses, which could adversely affect our operating results. We are, however, required to maintain assets in non-U.S. dollars to meet certain local country branch and regulatory requirements, which restricts our ability to manage these exposures through the matching of our assets and liabilities. In addition, we utilize foreign currency forward contracts to mitigate foreign currency risk.

The table below summarizes our net exposure as of June 30, 2014 and December 31, 2013 to foreign currencies for our subsidiaries whose functional currency is U.S. dollars:

<u>June 30, 2014</u>	<u>GBP</u>	<u>Euro</u>	<u>AUD</u>	<u>CDN</u>	<u>Other</u>	<u>Total</u>
(in millions of U.S. dollars)						
Total net foreign currency exposure	\$99.0	\$92.0	\$39.0	\$28.0	\$ 12.0	\$270.0
Pre-tax impact of a 10% movement of the U.S. dollar (1)	\$ 9.9	\$ 9.2	\$ 3.9	\$ 2.8	\$ 1.2	\$ 27.0
<u>December 31, 2013</u>	<u>GBP</u>	<u>Euro</u>	<u>AUD</u>	<u>CDN</u>	<u>Other</u>	<u>Total</u>
(in millions of U.S. dollars)						
Total net foreign currency exposure	\$67.0	\$18.0	\$ 1.0	\$16.0	\$(10.0)	\$ 92.0
Pre-tax impact of a 10% movement of the U.S. dollar (1)	\$ 6.7	\$ 1.8	\$ 0.1	\$ 1.6	\$ (1.0)	\$ 9.2

(1) Assumes 10% change in U.S. dollar relative to other currencies

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The table below summarize our net exposure as of June 30, 2014 and December 31, 2013 to foreign currencies for our subsidiaries whose functional currency is Australian dollars:

<u>June 30, 2014</u>	<u>Euro</u>	<u>GBP</u>	<u>CDN</u>	<u>USD</u>	<u>NZD</u>	<u>Total</u>
	(in millions of Australian dollars)					
Total net foreign currency exposure	\$3.7	\$ —	\$(1.0)	\$50.5	\$2.9	\$56.1
Pre-tax impact of a 10% movement of the Australian dollar (1)	\$0.3	\$ —	\$(0.1)	\$ 5.1	\$0.3	\$ 5.6
<u>December 31, 2013</u>	<u>Euro</u>	<u>GBP</u>	<u>CDN</u>	<u>USD</u>	<u>NZD</u>	<u>Total</u>
	(in millions of Australian dollars)					
Total net foreign currency exposure	\$4.0	\$1.0	\$(2.0)	\$43.0	\$3.0	\$49.0
Pre-tax impact of a 10% movement of the Australian dollar (1)	\$0.4	\$0.1	\$(0.2)	\$ 4.3	\$0.3	\$ 4.9

(1) Assumes 10% change in Australian dollar relative to other currencies

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has performed an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of 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 June 30, 2014. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission and is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

Our management has performed an evaluation, with the participation of our Chief Executive Officer and our Chief Financial Officer, of changes in our internal control over financial reporting that occurred during the three months ended June 30, 2014. Based upon that evaluation there were no changes in our internal control over financial reporting that occurred during the three months ended June 30, 2014 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

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation regarding claims. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material adverse effect on our business, results of operations or financial condition. Nevertheless, we cannot assure you that lawsuits, arbitrations or other litigation will not have a material adverse effect on our business, financial condition or results of operations. 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 claims. There can be no assurance that any such future litigation will not have a material adverse effect on our business, financial condition or results of operations.

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, 2013. We believe that the risk factors identified in our Annual Report on Form 10-K have not materially changed, except as set forth below.

Our expansion into the active underwriting business (through our acquisitions of Atrium and Torus) presents certain new risks and uncertainties described below, as well as others that we may encounter, which could cause a material adverse effect on our business, financial condition and results of operations.

Underwriting is inherently a matter of judgment, involving important assumptions about matters that are unpredictable and beyond our control, and for which historical experience and probability analysis may not provide sufficient guidance. In addition to the risks and uncertainties that impact all of our business segments, our Atrium and Torus active underwriting businesses expose us to risks that include, but are not limited to, those set forth below. Any of these risks could result in underperformance of the active underwriting businesses compared to our expectations, and could also have a material adverse effect on our business, financial condition and results of operations:

- Exposure to claims arising out of unpredictable natural and man-made catastrophic events (including hurricanes, windstorms, tsunamis, severe weather, earthquakes, floods, fires, droughts, explosions, environmental contamination, acts of terrorism, war or political unrest) and changing climate patterns and ocean temperature conditions, which could adversely affect our earnings and financial condition and cause substantial volatility in our results of operations for any fiscal quarter or year;
- Failure of our risk management and loss limitation methods, or our catastrophe risk modeling processes, to adequately manage our exposure to losses or provide sufficient protection against losses from catastrophes;
- The intense competition for business in this industry, including from major global insurance and reinsurance companies and underwriting syndicates with greater experience and resources than us, or as a result of industry consolidation;
- Dependence on a limited number of brokers, managing general agents and other third parties to support our business, both in terms of the volume of business we will rely on them to place and the credit risk we will assume from them;

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- Susceptibility to the effects of inflation due to premiums being established before the ultimate amounts of losses and loss adjustment expense are known;
- Susceptibility of the reinsurance we underwrite to the quality of the original underwriting decisions made by the ceding companies, which may lead us to inaccurately assess the risks we assume; and
- The cyclical nature of the insurance and reinsurance business, which has historically been characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of underwriting capacity permitted more favorable premium levels. An increase in premium levels is often offset by an increasing supply of underwriting capacity (via new entrants, market instruments, structures, or additional commitments by existing insurers) that may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms and fewer submissions for our active underwriting services, as well as our ability to purchase reinsurance, and could cause our earnings to decrease and our results of operations to fluctuate significantly from period to period.

We face challenges to realizing the expected benefits of acquisitions, which may cause underperformance relative to our expectations, unforeseen liabilities and expenses, integration difficulties and other challenges, any or all of which could have a material adverse effect on our business, financial condition or results of operations.

The acquisitions we have made and expect to make in the future may pose operational challenges, expose us to risks and divert management's time and energy, including relating to:

- funding cash flow shortages that may occur if anticipated revenues are not realized or are delayed, or if expenses are greater than anticipated;
- the value of assets being lower than expected or diminishing because of credit defaults or changes in interest rates, or liabilities assumed being greater than expected;
- integrating financial and operational reporting systems and internal controls, including assurance of compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and our reporting requirements under the Securities Exchange Act of 1934, as amended (or the Exchange Act);
- establishing satisfactory budgetary and other financial controls;
- leveraging our existing capabilities and expertise into the business acquired and establishing synergies within our organization;
- funding increased capital needs and overhead expenses;
- integrating technology platforms;
- obtaining and retaining management personnel required for expanded operations;
- fluctuating foreign currency exchange rates relating to the assets and liabilities we may acquire;
- goodwill and intangible asset impairment charges; and
- complying with applicable laws and regulations.

In particular, our ability to integrate and successfully operate the Torus companies will be a key component to our continued success. Torus added approximately 500 new employees (as compared to the approximately 739 employees we had as of December 31, 2013) and a number of new offices in

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various countries. The Torus group forms a new operating segment for us. In addition to the risks discussed above, the potential challenges of integrating Torus and achieving the anticipated benefits include implementing business and underwriting plans for Torus, establishing operating efficiencies, managing expenses, retaining key employees, improving systems, and working effectively with our joint venture partners. We must also assimilate the Torus companies into our internal control system, including by ensuring their compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and our reporting requirements under the Exchange Act, as of December 31, 2015. Failure to effectively achieve this could result in us reporting a material weakness in our internal controls over financial reporting.

Item 6. EXHIBITS

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

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SIGNATURE

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 August 11, 2014.

ENSTAR GROUP LIMITED

By: /s/ Richard J. Harris

Richard J. Harris
Chief Financial Officer, Authorized Signatory and
Principal Accounting and Financial Officer

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Exhibit No.	Description
3.1	Memorandum of Association of Enstar Group Limited (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K/A filed on May 5, 2011).
3.2(a)	Bye-Law Amendments adopted June 10, 2014 (incorporated by reference to Annex A to the Company's Definitive Proxy Statement filed on April 29, 2014).
3.2(b)*	Fourth Amended and Restated Bye-Laws of Enstar Group Limited.
3.3	Certificate of Designations for the Series A Convertible Participating Non-Voting Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on April 21, 2011).
3.4	Certificate of Designations for the Series B Convertible Participating Non-Voting Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on July 9, 2013).
10.1	Registration Rights Agreement, dated April 1, 2014, among Enstar Group Limited, FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII A Parallel Vehicle L.P., FR Torus Co-Investment, L.P. and Corsair Specialty Investors, L.P. (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on April 4, 2014).
10.2	Shareholder Rights Agreement, dated April 1, 2014, among Enstar Group Limited, FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII A Parallel Vehicle L.P., FR Torus Co-Investment, L.P. and Corsair Specialty Investors, L.P. (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on April 4, 2014).
10.3*	Amended and Restated Bayshore Shareholders' Agreement, dated May 8, 2014, among Bayshore Holdings Limited, Kenmare Holdings Ltd., Trident V, L.P., Trident V Parallel Fund, L.P., Trident V Professionals Fund, L.P., and Dowling Capital Partners I, L.P.
10.4*	Amended and Restated Northshore Shareholders' Agreement, dated May 8, 2014, among Northshore Holdings Limited, Kenmare Holdings Ltd., Trident V, L.P., Trident V Parallel Fund, L.P., Trident V Professionals Fund, L.P., and Dowling Capital Partners I, L.P.
10.5*†	Form of Stock Appreciation Right Award Agreement pursuant to the 2006 Equity Incentive Plan.
10.6*†	Form of Restricted Stock Award Agreement pursuant to the 2006 Equity Incentive Plan.
15.1*	KPMG Audit Limited Letter Regarding Unaudited Interim Financial Information.
31.1*	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.
31.2*	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.
32.1**	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.
32.2**	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.

* filed herewith

** furnished herewith

† denotes management contract or compensatory arrangement

**FOURTH AMENDED AND RESTATED
BYE-LAWS OF
ENSTAR GROUP LIMITED
(formerly known as Castlewood Holdings Limited)**

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INTERPRETATION**1. Definitions**

- 1.1** In these Bye-laws, the following words and expressions shall, where not inconsistent with the context, have the following meanings, respectively:

Act	the Companies Act 1981 as amended from time to time;
Affiliate or affiliate of any specified Member	any other person directly or indirectly controlling or controlled by or under common control with such specified Member. For the purposes of this definition, "control" when used with respect to any specified Member means the power to direct or cause the direction of the management and/or policies of such Member, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.
Auditor	includes an individual or partnership;
BHC Affiliates	with respect to any Member, all "affiliates" as defined in the U.S. Bank Holding Company Act of 1956, as amended, or Regulation Y of the Board of Governors of the U.S. Federal Reserve System;
Board	the board of directors appointed or elected pursuant to these Bye-laws and acting by resolution in accordance with the Act and these Bye-laws or the directors present at a meeting of directors at which there is a quorum;
Company	the company for which these Bye-laws are approved and confirmed;
Director	a director of the Company;

First Reserve	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.
Group	the Company and every company and other entity which is for the time being controlled by or under common control with the Company (for these purposes, "control" means the power to direct management or policies of the person in question, whether by means of an ownership interest or otherwise);
GSCP	GSCP VI AIV Navi, Ltd., GSCP VI Offshore Navi, Ltd., GSCP VI Parallel AIV Navi, Ltd. and GSCP VI Employee Navi, Ltd., each a Cayman Islands exempted company, and GSCP VI GmbH Navi, L.P., a Cayman Islands limited partnership;
Investment Agreement	the Investment Agreement dated as of April 20, 2011 between GSCP and the Company;
Member	the person registered in the Register of Members as the holder of shares in the Company and, when two or more persons are so registered as joint holders of shares, means the person whose name stands first in the Register of Members as one of such joint holders or all of such persons, as the context so requires;
notice	written notice as further provided in these Bye-laws unless otherwise specifically stated;
Officer	any person appointed by the Board to hold an office in the Company;

Register of Directors and Officers	the register of directors and officers referred to in these Bye-laws;
Register of Members	the register of members referred to in these Bye-laws;
Reorganization Event	(i) any consolidation, merger, tender or exchange offer, amalgamation or other similar business combination of the Company with or into another person, in each case pursuant to which the Common Shares or Non-Voting Convertible Common Shares will be converted into cash, securities or other property of the Company or another person; (ii) any sale, transfer, lease or conveyance to another person of all or substantially all of the property and assets of the Company, in each case pursuant to which the Common Shares or Non-Voting Convertible Common Shares will be converted into cash, securities or other property of the Company or another person; (iii) any reclassification of the Common Shares or Non-Voting Convertible Common Shares into securities including securities other than the Common Shares or Non-Voting Convertible Common Shares, as applicable; or (iv) any statutory exchange of the outstanding Common Shares or Non-Voting Convertible Common Shares for securities of another person (other than in connection with a merger or acquisition);
Resident Representative	any person appointed to act as resident representative and includes any deputy or assistant resident representative; and
Secretary	the person appointed to perform any or all of the duties of secretary of the Company and includes any deputy or assistant secretary and any person appointed by the Board to perform any of the duties of the Secretary.

1.2 In these Bye-laws, where not inconsistent with the context:

- (a) words denoting the plural number include the singular number and vice versa;
- (b) words denoting the masculine gender include the feminine and neuter genders;
- (c) words importing persons include companies, associations or bodies of persons whether corporate or not;
- (d) the words:
 - (i) "may" shall be construed as permissive; and
 - (ii) "shall" shall be construed as imperative; and
- (e) unless otherwise provided herein, words or expressions defined in the Act shall bear the same meaning in these Bye-laws.

1.3 In these Bye-laws expressions referring to writing or its cognates shall, unless the contrary intention appears, include facsimile, printing, lithography, photography, electronic mail and other modes of representing words in visible form.

1.4 Headings used in these Bye-laws are for convenience only and are not to be used or relied upon in the construction hereof.

SHARES

2. Power to Issue Shares

2.1 Subject to these Bye-laws and to any resolution of the Members to the contrary, and without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, the Board shall have the power to issue any unissued shares of the Company on such terms and conditions as it may determine.

2.2 Without limitation to the provisions of Bye-law 4, subject to the provisions of the Act, any preference shares may be issued or converted into shares that (at a determinable date or at the option of the Company or the holder) are liable to be redeemed on such terms and in such manner as may be determined by the Board (before the issue or conversion).

3. Power of the Company to Purchase its Shares

The Company may purchase its own shares in accordance with the provisions of the Act on such terms as the Board shall think fit. The Board may exercise all the powers of the Company to purchase all or any part of its own shares in accordance with the Act.

4. Rights Attaching to Shares

4.1 At the date this Bye-law 4.1 is adopted, the share capital of the Company shall be divided into three classes: (i) 90,000,000 ordinary shares of par value US\$1.00 each (the "Common Shares"), (ii) 21,000,000 non-voting convertible ordinary shares of par value US\$1.00 each (the "Non-Voting Convertible Common Shares") and (iii) 45,000,000 preference shares of par value US\$1.00 each (the "Preference Shares").

4.2 The holders of Common Shares shall, subject to the provisions of these Bye-laws (including, without limitation, the rights attaching to Preference Shares):

- (a) be entitled to one vote per share;
- (b) be entitled to such dividends as the Board may from time to time declare on a pari passu basis with the Non-Voting Convertible Common Shares;
- (c) in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganisation or otherwise or upon any distribution of capital, be entitled to the surplus assets of the Company on a pari passu basis with the Non-Voting Convertible Common Shares; and
- (d) generally be entitled to enjoy all of the rights attaching to shares.

Any Common Shares held by GSCP or its BHC Affiliates shall, for the sake of clarity, vote together with all other Common Shares, but may be converted at any time at the option of the

holder in its sole discretion into Series B Non-Voting Common Shares, Series C Non-Voting Common Shares or Series D Non-Voting Common Shares, at a one-for-one exchange ratio, subject in each case to any necessary adjustments for any share splits, dividends, recapitalizations, consolidations or similar transactions occurring in respect of the Common Shares or the Non-Voting Convertible Common Shares after the date of the adoption of these Bye-laws.

- 4.3 (a) The Non-Voting Convertible Common Shares shall be divided into the following series: (i) Series A Non-Voting Common Shares, (ii) Series B Non-Voting Common Shares, (iii) Series C Non-Voting Common Shares, (iv) Series D Non-Voting Common Shares and (v) Series E Non-Voting Common Shares, each with the respective rights hereinafter specified. All Non-Voting Convertible Common Shares issued as of December 31, 2010 shall be designated Series A Non-Voting Common Shares. All Non-Voting Convertible Common Shares issued to GSCP or its BHC Affiliates (x) pursuant to Section 2.03(b) of the Investment Agreement or (y) upon the conversion of Common Shares into Non-Voting Convertible Common Shares pursuant to Bye-law 4.2, in each case, shall be Series B Non-Voting Common Shares. All other Non-Voting Convertible Common Shares issued to GSCP or its BHC Affiliates pursuant to the Investment Agreement shall be Series C Non-Voting Common Shares. Series D Non-Voting Common Shares may be issued upon conversion of (i) Common Shares in accordance with Bye-law 4.2, (ii) Series B Non-Voting Common Shares in accordance with Bye-law 4.3(g) or (iii) Series C Non-Voting Common Shares in accordance with Bye-law 4.3(h). All other Non-Voting Convertible Common Shares are Series E Non-Voting Common Shares, including the Non-Voting Convertible Common Shares issued to First Reserve or its Affiliates upon the conversion of Series B Preference Shares.
- (b) The holders of Non-Voting Convertible Common Shares shall, subject to the provisions of these Bye-laws (including, without limitation, the rights attaching to Preference Shares):
- (i) be entitled to such dividends as the Board may from time to time declare on a pari passu basis with the Common Shares;

- (ii) in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganisation or otherwise or upon any distribution of capital, be entitled to the surplus assets of the Company on a pari passu basis with the Common Shares; and
 - (iii) generally be entitled to enjoy all of the rights attaching to Common Shares, but shall be non-voting, except (1) as required by law, (2) in accordance with Bye-law 15 or (3) for the limited voting rights specified in Bye-law 4.3(c).
- (c) The holders of the Series B Non-Voting Common Shares, voting together as a separate class, and the holders of the Series C Non-Voting Common Shares, voting together as a separate class, shall be entitled to vote such shares, but only with respect to the following limited matters, which shall constitute a variation of class rights for the purposes of Bye-law 15:
- (i) any amendment, alteration or repeal of any provision of the Company's memorandum of association or these Bye-laws (including any amendment, alteration or repeal by means of a merger, amalgamation, consolidation or otherwise) so as to significantly and adversely affect the rights, preferences, privileges or limited voting rights of the Series B Non-Voting Common Shares or the Series C Non-Voting Common Shares, as applicable;
 - (ii) any consummation of a binding share exchange or reclassification involving the Series B Non-Voting Common Shares or the Series C Non-Voting Common Shares or of a merger, consolidation or amalgamation of the Company with another corporation or other entity (except for any such merger, consolidation or amalgamation in which the consideration paid to shareholders is entirely in cash), unless in each case (x) the shares of Series B Non-Voting Common Shares or the Series C Non-Voting Common Shares, as applicable, remain outstanding or, in the case of any such merger or consolidation with respect to which the Company is not the

surviving or resulting entity, are converted into or exchanged for securities of the surviving or resulting entity or its ultimate parent, and (y) such shares have such rights, preferences, privileges and limited voting rights, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and limited voting rights, and limitations and restrictions thereof, of the Series B Non-Voting Common Shares or the Series C Non-Voting Common Shares, as applicable, immediately prior to such consummation, taken as a whole.

provided, for the sake of clarity, that the holders of the Series A Non-Voting Common Shares, the Series D Non-Voting Common Shares and the Series E Non-Voting Common Shares shall not be entitled to vote such shares, except as required under Bermuda law.

- (d) Each Series A Non-Voting Common Share and Series B Non-Voting Common Share shall be automatically converted into one Common Share, subject to any necessary adjustments for any share splits, dividends, recapitalizations, consolidations or similar transactions occurring in respect of the Common Shares or the Non-Voting Convertible Common Shares after the date of the adoption of these Bye-laws, immediately prior to any transfer by the registered holder, whether or not for value, to a third party, except for transfers to a nominee or Affiliate of such holder in a transfer that will not result in a change of beneficial ownership (as determined under Rule 13d-3 under the United States Securities Exchange Act of 1934, as amended) or to a person that already holds Series A Non-Voting Common Shares or Series B Non-Voting Common Shares.
- (e) Each Series C Non-Voting Common Share, Series D Non-Voting Common Share and Series E Non-Voting Common Share shall be automatically converted into one Common Share, subject to any necessary adjustments for any share splits, dividends, recapitalizations, consolidations or similar transactions occurring in respect of the Common Shares or the Non-Voting Convertible Common Shares after the date of the adoption of these Bye-laws, only upon the transfer by the registered holder thereof, whether or not for value, to a third party in a Widely Dispersed Offering. As used herein, “Widely Dispersed Offering” means (i) a widespread public distribution, (ii) a transfer in

which no transferee (or group of associated transferees) would receive 2% or more of any class of voting shares of the Company or (iii) a transfer to a transferee that would control more than 50% of the voting shares of the Company without any transfer from the holder. For purposes of the Series C Non-Voting Common Shares and Series D Non-Voting Common Shares, the term “registered holder” or “holder” means GSCP or its BHC Affiliates and any direct or indirect transferee of GSCP or its BHC Affiliates except a direct or indirect transferee that receives the Series C Non-Voting Common Shares or Series D Non-Voting Common Shares in a Widely Dispersed Offering.

- (f) The holders of the Series A Non-Voting Common Shares shall not be permitted to convert such shares into any other class of the Company’s share capital or into any other series of Non-Voting Convertible Common Shares, except pursuant to a transfer permitted by clause (d) of this Bye-law 4.3.
- (g) The holders of the Series B Non-Voting Common Shares shall have the right to convert all or any number of such shares into Series C Non-Voting Common Shares, Series D Non-Voting Common Shares or Common Shares at any time, in the sole discretion of such holder.
- (h) The holders of the Series C Non-Voting Common Shares shall have the right to convert all or any number of such shares into Series D Non-Voting Common Shares at any time, in the sole discretion of such holder. The holders of the Series D Non-Voting Common Shares shall have no right to convert such shares, except that, upon the receipt of all applicable regulatory approvals, all or any number of such shares may be converted into Series C Non-Voting Common Shares at any time, in the sole discretion of such holder. The holders of the Series E Non-Voting Common Shares shall have no right to convert such shares.
- (i) If at any time the Company declares or pays a dividend or distribution to any holder of Common Shares in the form of Common Shares or other voting security of the Company, the Company shall declare and pay to each holder of Non-Voting Convertible Common Shares a proportional dividend or distribution in the form of the same series of Non-Voting Convertible Common Shares.

(j) Notwithstanding anything herein to the contrary, if the consideration payable to GSCP or its BHC Affiliates or First Reserve or its Affiliates as holders of Non-Voting Convertible Common Shares upon a Reorganization Event consists (in whole or in part) of property or securities that would, in the sole judgment of any holder thereof, create, aggravate or exacerbate any issue, problem or concern for any such holder or any of its affiliates, then the consideration payable to such holder shall be adjusted (e.g., by the issuance of non-voting securities that are economically equivalent to the voting securities they replaced and would convert into such voting securities on transfer to an unaffiliated third party, subject, if applicable, to the conversion restrictions set forth in Bye-law 4.3(e)) to the maximum extent practicable to eliminate or address such issue, problem or concern, so long as such adjusted or different securities have the same value as, and are pari passu with, the securities that they replaced.

4.4 The Board is authorised to provide for the issuance of the Preference Shares in one or more series, and to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations, or restrictions thereof (and, for the avoidance of doubt, such matters and the issuance of such Preference Shares shall not be deemed to vary the rights attached to the Common Shares or the Non-Voting Convertible Common Shares or, subject to the terms of any other series of Preference Shares, to vary the rights attached to any other series of Preference Shares). The authority of the Board with respect to each series shall include, but not be limited to, determination of the following:

- (a) the number of shares constituting that series and the distinctive designation of that series;
- (b) the dividend rate on the shares of that series, whether dividends shall be cumulative and, if so, from which date or dates, and the relative rights of priority, if any, of the payment of dividends on shares of that series;
- (c) whether that series shall have voting rights, in addition to the voting rights provided by law, and if so, the terms of such voting rights;
- (d) whether that series shall have conversion or exchange privileges (including, without limitation, conversion into Common Shares), and, if so, the terms and conditions of such conversion or exchange, including provision for adjustment of the conversion or exchange rate in such events as the Board shall determine;

- (e) whether or not the shares of that series shall be redeemable or repurchaseable, and, if so, the terms and conditions of such redemption or repurchase, including the manner of selecting shares for redemption or repurchase if less than all shares are to be redeemed or repurchased, the date or dates upon or after which they shall be redeemable or repurchaseable, and the amount per share payable in case of redemption or repurchase, which amount may vary under different conditions and at different redemption or repurchase dates;
 - (f) whether that series shall have a sinking fund for the redemption or repurchase of shares of that series, and, if so, the terms and amount of such sinking fund;
 - (g) the right of the shares of that series to the benefit of conditions and restrictions upon the creation of indebtedness of the Company or any subsidiary, upon the issue of any additional shares (including additional shares of such series or any other series) and upon the payment of dividends or the making of other distributions on, and the purchase, redemption or other acquisition by the Company or any subsidiary of any issued shares of the Company;
 - (h) the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, and the relative rights of priority, if any, of payment of shares of that series; and
 - (i) any other relative participating, optional or other special rights, qualifications, limitations or restrictions of that series.
- 4.5** Any Preference Shares of any series which have been redeemed (whether through the operation of a sinking fund or otherwise) or which, if convertible or exchangeable, have been converted into or exchanged for shares of any other class or classes shall have the status of authorised and unissued Preference Shares of the same series and may be reissued as a part of the series of which they were originally a part or may be reclassified and reissued as part of a new series of Preference Shares to be created by resolution or resolutions of the Board or as part of any other

series of Preference Shares, all subject to the conditions and the restrictions on issuance set forth in the resolution or resolutions adopted by the Board providing for the issue of any series of Preference Shares.

- 4.6** At the discretion of the Board, whether or not in connection with the issuance and sale of any shares or other securities of the Company, the Company may issue securities, contracts, warrants or other instruments evidencing any shares, option rights, securities having conversion or option rights, or obligations on such terms, conditions and other provisions as are fixed by the Board, including, without limiting the generality of this authority, conditions that preclude or limit any person or persons owning or offering to acquire a specified number or percentage of the issued Common Shares, other shares, option rights, securities having conversion or option rights, or obligations of the Company or transferee of the person or persons from exercising, converting, transferring or receiving the shares, option rights, securities having conversion or option rights, or obligations.
- 4.7** (a) The voting power of all shares is hereby adjusted (and shall be automatically adjusted in the future) to the extent necessary so that there is no 9.5% U.S. Shareholder or 9.5% Direct Foreign Shareholder Group. The Board shall implement the foregoing in the manner provided herein; provided, that the foregoing provision and the remainder of this Bye-law 4.7 shall not apply in the event that one Member of the Company owns greater than 75% of the issued and outstanding shares of the Company.
- (b) The Board shall from time to time, including prior to any time at which a vote of Members is taken, take all reasonable steps, including those specified in Bye-law 4.9, necessary to ascertain, through communications with Members or otherwise, whether there exists, or will exist at the time any vote of Members is taken, a Tentative 9.5% U.S. Shareholder or a Tentative 9.5% Direct Foreign Shareholder Group.
- (c) In the event that a Tentative 9.5% U.S. Shareholder exists, (i) the aggregate votes conferred by Common Shares held by a Member and treated as Controlled Shares of that Tentative 9.5% U.S. Shareholder shall be reduced to the extent necessary such that the combined voting power conferred by the Common Shares and the voting power that would be conferred by the Common Shares into which the Series B Non-Voting Common Shares are then convertible, in each case that are treated as Controlled Shares of

the Tentative 9.5% U.S. Shareholder, will constitute 9.5% of the voting power of all Common Shares (taking into account the reduction effected by clause (ii) of this Bye-law 4.7(c)) and (ii) the aggregate votes conferred by the Common Shares held by GSCP and its affiliates and treated as Controlled Shares of such Members shall be correspondingly reduced to the extent necessary such that the ratio of (x) the voting power represented by the sum of (A) the votes conferred by such Common Shares and (B) the votes that would be conferred by any Common Shares into which the Series B Non-Voting Common Shares are then convertible to (y) the voting power of all Common Shares (taking into account the reduction effected by clause (i) of this Bye-law 4.7(c)) is not greater than the ratio as if the adjustment described in clause (i) of this Bye-law 4.7(c) had not occurred. In applying the previous sentence where shares held by more than one Member are treated as Controlled Shares of such Tentative 9.5% U.S. Shareholder, the reduction in votes shall apply to such Members in descending order according to their respective Attribution Percentages, provided, that in the event of a tie, the reduction shall apply first to the Member whose shares are Controlled Shares of the Tentative 9.5% U.S. Shareholder by virtue of the Tentative 9.5% U.S. Shareholder's economic interest in (as opposed to voting control with respect to) such shares. The adjustments of voting power described in this Bye-law shall apply repeatedly until there is no 9.5% U.S. Shareholder. The Board may deviate from any of the principles described in this Bye-law and determine that shares held by a Member shall carry different voting rights as it determines appropriate (1) to avoid the existence of any 9.5% U.S. Shareholder or (2) to avoid adverse tax, legal or regulatory consequences to the Company, any subsidiary of the Company, or any other Member or its affiliates. For the avoidance of doubt, in applying the provisions of Bye-laws 4.7 through 4.10, a share may carry a fraction of a vote. In the event any Non-Voting Convertible Common Shares of any registered holder are entitled to vote on any matter under Bermuda law (including, but not limited to, any Reorganization Event), such shares shall be deemed for purposes of this Bye-law 4.7(c) to be that number of Common Shares into which such Non-Voting Convertible Common Shares may be converted upon a qualified transfer, and the voting power adjustments set forth in this Bye-law 4.7(c) shall apply to Common Shares and such Non-Voting Convertible Common Shares, collectively, on such basis. Notwithstanding anything herein to the contrary, the aggregate voting power of the holders of Series C Non-Voting Common Shares and Series D Non-Voting Common Shares with respect to any merger, consolidation or amalgamation of the Company with another corporation or other entity shall in no event exceed 0.01% of the aggregate voting power of the Company's issued share capital, and this sentence shall not be amended without the affirmative vote (or

written consent) of the holders representing a majority of each of the Series C Non-Voting Common Shares and Series D Non-Voting Common Shares. Notwithstanding anything herein to the contrary, the aggregate voting power of the holders of Series E Non-Voting Common Shares with respect to any merger, consolidation or amalgamation of the Company with another corporation or other entity shall in no event exceed 0.01% of the aggregate voting power of the Company's issued share capital, and this sentence shall not be amended without the affirmative vote (or written consent) of the holders representing a majority of each of the Series E Non-Voting Common Shares. For the avoidance of doubt, the voting power adjustments set forth in this Bye-law 4.7(c) shall not apply to the voting rights set forth in Bye-law 4.3(c). (d) Immediately after completing the adjustment of voting power provided for in Bye-law 4.7(c), in the event that a Tentative 9.5% Direct Foreign Shareholder Group exists, the aggregate votes conferred by shares held by the Tentative 9.5% Direct Foreign Shareholder Group shall be reduced to the extent necessary to cause such Shareholder or Shareholders to no longer constitute a 9.5% Direct Foreign Shareholder Group.

- (e) "9.5% Direct Foreign Shareholder Group" means a shareholder that is not a U.S. Person or a group of commonly controlled shareholders that are not U.S. Persons, in either case who owns shares that constitute more than nine and one-half percent (9.5%) of the voting power of all shares of the Company and that are attributable to a U.S. Person under Section 958 of the Code.
- (f) "Attribution Percentage" shall mean, with respect to a Member, the percentage of the Member's shares that are treated as Controlled Shares of a Tentative 9.5% Shareholder.
- (g) "Controlled Shares" in reference to any person means all shares of the Company directly, indirectly or constructively owned by such person as determined pursuant to Section 958 of the Code.
- (h) "9.5% U.S. Shareholder" means a "United States person" as defined in the Code (a "U.S. Person") whose Controlled Shares constitute more than nine and one-half percent (9.5%) of the voting power of all shares of the Company and who would be generally required to recognize income with respect to the Company under Section 951(a)(1) of the Code, if the Company were a controlled foreign corporation as defined in Section 957 of the Code and if the ownership threshold under Section 951(b) of the Code were 9.5%.

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- (i) "Tentative 9.5% U.S. Shareholder" means a U.S. Person that, but for adjustments to the voting rights of shares pursuant to Bye-laws 4.7 through 4.8, would be a 9.5% U.S. Shareholder.
 - (j) "Tentative 9.5% Direct Foreign Shareholder Group" means a shareholder that is not a U.S. Person or a group of commonly controlled shareholders that are not U.S. Persons that, but for adjustments to the voting rights of shares pursuant to Bye-laws 4.7 through 4.8, would be a 9.5% Direct Foreign Shareholder Group.
- 4.8** In addition to the provisions of Bye-law 4.7, any shares shall not carry any right to vote to the extent that the Board of Directors determines, in its reasonable discretion, that it is necessary that such shares should not carry the right to vote in order to avoid adverse tax, legal or regulatory consequences to the Company, any subsidiary of the Company, or any other Member or its affiliates, provided, that no adjustment pursuant to this sentence shall cause any person to become a 9.5% U.S. Shareholder or a 9.5% Direct Foreign Shareholder Group.
- 4.9** Prior to any date on which Members shall vote on any matter, the Board of Directors shall (a) retain the services of an internationally recognized accounting firm or organization with comparable professional capabilities in order to assist the Company in applying the principles of Bye-laws 4.7 through 4.10, (b) obtain from such firm or organization a statement describing the information obtained and procedures followed and setting forth the determinations made with respect to Bye-laws 4.7 through 4.10 and (c) notify each Member of the voting power conferred by its shares determined in accordance with Bye-laws 4.7 through 4.10.
- 4.10 (a)** Subject to the provisions of this Bye-law 4.10, the Company shall have the authority to reasonably request from any Member, and such Member shall promptly provide to the Company, such information as the Company may reasonably request for the purpose of (i) determining whether any Member's voting rights are to be adjusted pursuant to Bye-laws 4.7 through 4.10, (ii) determining whether the Company would realize any income that would be included in the income of any Member (or any interest holder, whether direct or indirect, of any Member) by operation of Section 953(c) of the Code and (iii) determining whether the Company or any of its subsidiaries would be entitled to the benefits of a tax treaty.

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- (b) Any information provided by each Member to the Company pursuant to this Bye-law 4.10 shall be deemed "confidential information" (the "Confidential Information") and shall be used by the Company solely for the purposes contemplated by this Bye-law 4.10 (except as otherwise may be required by applicable law or regulation). The Company shall hold such Confidential Information in strict confidence and shall not disclose any Confidential Information that it receives, except (i) to the U.S. Internal Revenue Service (the "Service") if and to the extent the Confidential information is required by the Service, (ii) to any outside legal counsel or accounting firm engaged by the Company to make determinations pursuant to Bye-laws 4.7 through 4.10, (iii) to directors, officers and employees of the Company and (iv) as otherwise required by law or regulation. The Company shall take measures reasonably practicable to provide for the continued confidentiality of the Confidential Information and shall grant the persons referred to in the preceding clauses (ii) and (iii) access to the Confidential Information only (x) to the extent necessary, as appropriate, to allow them to assist the Company in any analysis required pursuant to Bye-laws 4.7 through 4.10, (y) to determine whether the Company would realize any income that would be included in the income of any Member (or any interest holder, whether direct or indirect, of any Member) by operation of Section 953(e) of the Code and (z) to determine whether the Company or any of its subsidiaries would be entitled to the benefits of a tax treaty. Prior to granting access to the Confidential Information to any such persons, the Company shall inform them of the information's confidential nature and of the provisions of this Bye-law 4.10 and shall require them to abide by all the provisions hereof. For the avoidance of doubt, the Company shall be permitted to disclose to the Members and others the relative voting percentages of the Members after application of Bye-laws 4.7 through 4.10. At the written request of a Member, the Confidential Information of such Member shall be destroyed or returned to such Member after the later to occur of (i) such Member no longer being a Member or (ii) the expiration of the applicable statute of limitations with respect to any Confidential Information obtained for purposes of engaging in any tax related analysis.
 - (c) The Company shall (i) notify a Member of the existence, terms and circumstances surrounding any request made to the Company to disclose any Confidential Information provided by or with respect to such Member and, prior to such disclosure, shall permit, if practicable, such Member a reasonable period of time to seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Bye-law 4.10, and (ii) if, in the absence of a protective order, such disclosure is required in the reasonable opinion of counsel to the Company, the Company shall make such disclosure

without liability hereunder; provided that the Company shall use commercially reasonable efforts to furnish only that portion of the Confidential Information that is legally required, shall give such Member notice of the information to be disclosed as far in advance of its disclosure as practicable and, upon the reasonable request of such Member and at its expense, shall use commercially reasonable efforts to ensure that confidential treatment will be accorded to all such disclosed information.

- (d) The Board may rely in good faith exclusively on the analysis, deliberation, reports and other communications of those persons specified in Bye-law 4.10(b) with respect to the collection, disclosure or use of the Confidential Information, including, but not limited to
 - (i) determining whether the Company would realize any income that would be included in the income of any Member (or any interest holder, whether direct or indirect, of any Member) by operation of Section 953(c) of the Code or implementing any provisions of these Bye-laws and (ii) determining whether the Company or any of its subsidiaries would be entitled to the benefits of a tax treaty.
- (e) If any Member fails to respond to a reasonable request for information by the Company pursuant to Bye-law 4.10(a) within seven business days of such request, or submits incomplete or inaccurate information in response to such a reasonable request, the Directors may in their reasonable discretion (after considering the circumstances described in any response to the request by the Member and providing the Member with a cure period of such length as the Board may reasonably determine under the circumstances) determine that such Member's shares shall carry no voting rights in which case such shares shall not carry any voting rights until otherwise determined by the Directors in their reasonable discretion.
- (f) Any holder of shares that is a corporation, partnership, limited liability company or other entity or a U.S. Person shall give notice to the Company within ten days following the date that such holder acquires actual knowledge that it is the owner of Controlled Shares that constitute 9.5% or more of the voting power of all shares.
- (g) Notwithstanding the foregoing, no Member shall be liable to any other Member or the Company for any losses or damages resulting from such Member's failure to respond to, or submission of incomplete or inaccurate information in response to, a request under subparagraph (a) of this Bye-law or from such Member's failure to give notice under subparagraph (b) of this Bye-law.

5. Calls on Shares

- 5.1** The Board may make such calls as it thinks fit upon the Members in respect of any monies (whether in respect of nominal value or premium) unpaid on the shares allotted to or held by such Members (and not made payable at fixed times by the terms and conditions of issue) and, if a call is not paid on or before the day appointed for payment thereof, the Member may at the discretion of the Board be liable to pay the Company interest on the amount of such call at such rate as the Board may determine, from the date when such call was payable up to the actual date of payment. The Board may differentiate between the holders as to the amount of calls to be paid and the times of payment of such calls.
- 5.2** Any sum which by the terms of allotment of a share becomes payable upon issue or at any fixed date, whether on account of the nominal value of the share or by way of premium, shall for all the purposes of these Bye-laws be deemed to be a call duly made and payable, on the date on which, by the terms of issue, the same becomes payable, and in case of non-payment all the relevant provisions of these Bye-laws as to payment of interest, costs, charges and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.
- 5.3** The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.
- 5.4** The Company may accept from any Member the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up.

6. Prohibition on Financial Assistance

The Company shall not give, whether directly or indirectly, whether by means of loan, guarantee, provision of security or otherwise, any financial assistance for the purpose of the acquisition or proposed acquisition by any person of any shares in the Company, but nothing in this Bye-law shall prohibit transactions permitted under the Act.

7. Forfeiture of Shares

- 7.1** If any Member fails to pay, on the day appointed for payment thereof, any call in respect of any share allotted to or held by such Member, the Board may, at any time thereafter during such time as the call remains unpaid, direct the Secretary to forward such Member a notice in writing in the form, or as near thereto as circumstances admit, of the following:

Notice of Liability to Forfeiture for Non-Payment of Call
Enstar Group Limited (the "Company")

You have failed to pay the call of [amount of call] made on the [] day of [], 20[], in respect of the [number] share(s) [number in figures] standing in your name in the Register of Members of the Company, on the [] day of [], 20[], the day appointed for payment of such call. You are hereby notified that unless you pay such call together with interest thereon at the rate of [] per annum computed from the said [] day of [], 20[] at the registered office of the Company the share(s) will be liable to be forfeited.

Dated this [] day of [], 20[]

[Signature of Secretary] By Order of the Board

- 7.2** If the requirements of such notice are not complied with, any such share may at any time thereafter before the payment of such call and the interest due in respect thereof be forfeited by a resolution of the Board to that effect, and such share shall thereupon become the property of the Company and may be disposed of as the Board shall determine.
- 7.3** A Member whose share or shares have been forfeited as aforesaid shall, notwithstanding such forfeiture, be liable to pay to the Company all calls owing on such share or shares at the time of the forfeiture and all interest due thereon.
- 7.4** The Board may accept the surrender of any shares which it is in a position to forfeit on such terms and conditions as may be agreed. Subject to those terms and conditions, a surrendered share shall be treated as if it had been forfeited.

8. Share Certificates

- 8.1** Every Member shall be entitled to a certificate under the seal of the Company (or a facsimile thereof) specifying the number and, where appropriate, the class of shares held by such Member and whether the same are fully paid up and, if not, specifying the amount paid on such shares.

The Board may by resolution determine, either generally or in a particular case, that any or all signatures on certificates may be printed thereon or affixed by mechanical means.

- 8.2 The Company shall be under no obligation to complete and deliver a share certificate unless specifically called upon to do so by the person to whom the shares have been allotted.
- 8.3 If any share certificate shall be proved to the satisfaction of the Board to have been worn out, lost, mislaid, or destroyed the Board may cause a new certificate to be issued and request an indemnity for the lost certificate if it sees fit.

9. Fractional Shares

The Company may issue its shares in fractional denominations and deal with such fractions to the same extent as its whole shares and shares in fractional denominations shall have in proportion to the respective fractions represented thereby all of the rights of whole shares including (but without limiting the generality of the foregoing) the right to vote, to receive dividends and distributions and to participate in a winding-up.

REGISTRATION OF SHARES

10. Register of Members

- 10.1 The Board shall cause to be kept in one or more books a Register of Members and shall enter therein the particulars required by the Act.
- 10.2 The Register of Members shall be open to inspection at the registered office of the Company on every business day, subject to such reasonable restrictions as the Board may impose, so that not less than two hours in each business day be allowed for inspection. The Register of Members may, after notice has been given in accordance with the Act, be closed for any time or times not exceeding in the whole thirty days in each year.

11. Registered Holder Absolute Owner

The Company shall be entitled to treat the registered holder of any share as the absolute owner thereof and accordingly shall not be bound to recognise any equitable claim or other claim to, or interest in, such share on the part of any other person.

12. Transfer of Registered Shares

- 12.1** An instrument of transfer shall be in writing in the form of the following, or as near thereto as circumstances admit, or in such other form as the Board may accept:

Transfer of a Share or Shares
Enstar Group Limited (the "Company")

FOR VALUE RECEIVED.....[amount], I, [name of transferor] hereby sell, assign and transfer unto [transferee] of [address], [number] of shares of the Company.

DATED this [] day of [], 20[]

Signed by:

Transferor

Transferee

In the presence of:

Witness

Witness

- 12.2** Such instrument of transfer shall be signed by or on behalf of the transferor and transferee, provided that, in the case of a fully paid share, the Board may accept the instrument signed by or on behalf of the transferor alone. The transferor shall be deemed to remain the holder of such share until the same has been transferred to the transferee in the Register of Members.
- 12.3** The Board may refuse to recognise any instrument of transfer unless it is accompanied by the certificate in respect of the shares to which it relates and by such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.
- 12.4** The joint holders of any share may transfer such share to one or more of such joint holders, and the surviving holder or holders of any share previously held by them jointly with a deceased Member may transfer any such share to the executors or administrators of such deceased Member.
- 12.5** The Board may in its absolute discretion and without assigning any reason therefor refuse to register the transfer of a share which is not fully paid. The Board shall refuse to register a transfer unless all applicable consents, authorisations and permissions of any governmental body or agency in Bermuda have been obtained. If the Board refuses to register a transfer of any share the Secretary shall, within three months after the date on which the transfer was lodged with the Company, send to the transferor and transferee notice of the refusal.

12.6 Shares may be transferred without a written instrument if transferred by an appointed agent or otherwise in accordance with the Act.

- 12.7 (a)** The Directors may decline to register any transfer of shares if it appears to the Directors, in their reasonable discretion, after taking into account, among other things, the limitation on voting rights contained in these Bye-laws, that any non-de minimis adverse tax, regulatory or legal consequence to the Company, any subsidiary of the Company, or any other holder of shares or its Affiliates would result from such transfer (including if such consequence arises as a result of any such U.S. Person owning Controlled Shares that constitute 9.5% or more of the value of the Company or the voting shares of the Company (but subject to the provisions of Bye-laws 4.7 through 4.10)). The Directors shall have the authority to reasonably request from any holder of shares, and such holder of shares shall provide, such information as the Directors may reasonably request for the purpose of determining whether any transfer should be permitted.
- (b)** Subject to any applicable requirements of the Nasdaq National Market or other quotation system or exchange, the Directors (a) may decline to register any transfer of shares, unless (i) a written opinion from counsel reasonably acceptable to the Company shall have been obtained to the effect that registration of such shares under the U.S. Securities Act of 1933, as amended, is not required or (ii) an effective registration statement under the U.S. Securities Act of 1933, as amended, is in place covering the shares to be transferred and (b) shall decline to register any transfer of shares if the transferee shall not have been approved by applicable governmental authorities if such approval is required in respect of such transfer.
- (c)** If the Board refuses to register a transfer of any share the Secretary shall, within ten business days after the date on which the transfer was lodged with the Company, send to the transferor and transferee notice detailing the nature of the refusal.

13. Transmission of Registered Shares

- 13.1** In the case of the death of a Member, the survivor or survivors where the deceased Member was a joint holder, and the legal personal representatives of the deceased Member where the deceased Member was a sole holder, shall be the only persons recognised by the Company as having any title to the deceased Member's interest in the shares. Nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share which had been jointly held by such deceased Member with other persons. Subject to the provisions of the Act, for the purpose of this Bye-law, legal personal representative means the executor or administrator of a deceased Member or such other person as the Board may, in its reasonable discretion, decide as being properly authorised to deal with the shares of a deceased Member.
- 13.2** Any person becoming entitled to a share in consequence of the death or bankruptcy of any Member may be registered as a Member upon such evidence as the Board may deem sufficient or may elect to nominate some person to be registered as a transferee of such share, and in such case the person becoming entitled shall execute in favour of such nominee an instrument of transfer in writing in the form, or as near thereto as circumstances admit, of the following:

Transfer by a Person Becoming Entitled on Death/Bankruptcy of a Member

Enstar Group Limited (the "Company")

I/We, having become entitled in consequence of the [death/bankruptcy] of [name and address of deceased/bankrupt Member] to [number] share(s) standing in the Register of Members of the Company in the name of the said [name of deceased/bankrupt Member] instead of being registered myself/ourselves, elect to have [name of transferee] (the "Transferee") registered as a transferee of such share(s) and I/we do hereby accordingly transfer the said share(s) to the Transferee to hold the same unto the Transferee, his or her executors, administrators and assigns, subject to the conditions on which the same were held at the time of the execution hereof; and the Transferee does hereby agree to take the said share(s) subject to the same conditions.

DATED this [] day of [], 20[]

Signed by:

Transferor

In the presence of:

Witness

Transferee

Witness

- 13.3** On the presentation of the foregoing materials to the Board, accompanied by such evidence as the Board may require to prove the title of the transferor, the transferee shall be registered as a Member. Notwithstanding the foregoing, the Board shall, in any case, have the same right to decline or suspend registration as it would have had in the case of a transfer of the share by that Member before such Member's death or bankruptcy, as the case may be.
- 13.4** Where two or more persons are registered as joint holders of a share or shares, then in the event of the death of any joint holder or holders the remaining joint holder or holders shall be absolutely entitled to the said share or shares and the Company shall recognise no claim in respect of the estate of any joint holder except in the case of the last survivor of such joint holders.
- 13.5** If the Directors in their reasonable discretion determine that share ownership by any person may result in a non-de minimis adverse tax, legal or regulatory consequence to the Company, any subsidiary of the Company, or any other holder of shares or its Affiliates (including if such consequence arises as a result of any such U.S. Person owning Controlled Shares that constitute 9.5% or more of the value of the Company or the voting shares of the Company (but subject to the provisions of Bye-laws 4.7 through 4.10)), the Company will have the option but not the obligation to repurchase or assign to a third party the right to purchase the minimum number of shares held by such person which is necessary to eliminate such non-de minimis adverse tax, legal or regulatory consequence at a price determined in the good faith discretion of the Directors to represent such shares' fair market value; provided, that (a) if the shares are not traded on a quotation system or securities exchange in or outside the United States, the fair market value per share shall be determined by the Directors without a minority discount and without a liquidity discount or (b) if the shares are traded on a quotation system or securities exchange, the fair market value per share shall be determined by the Directors based on the average of the last sales price per share or if there is none, the average of the bid and asked price per share, without a minority discount and without a liquidity discount, in each case for the eight business days prior to the repurchase date. If a Member disagrees with any price so determined by the Board, the fair market value per share will be determined by an independent appraiser retained by the Company at its expense and reasonably acceptable to such Member.

ALTERATION OF SHARE CAPITAL

14. Power to Alter Capital

- 14.1** The Company may if authorised by resolution of the Members increase, divide, consolidate, subdivide, change the currency denomination of, diminish or otherwise alter or reduce its share capital in any manner permitted by the Act.
- 14.2** Where, on any alteration or reduction of share capital, fractions of shares or some other difficulty would arise, the Board may deal with or resolve the same in such manner as it thinks fit.

15. Variation of Rights Attaching to Shares

If, at any time, the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the holders of the shares of the class at which meeting the necessary quorum shall be two persons at least holding or representing by proxy one-third of the issued shares of the class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

Notwithstanding the foregoing, with respect to the Series C Non-Voting Common Shares, Series D Non-Voting Common Shares and Series E Non-Voting Common Shares only, the rights attached to such Series C Non-Voting Common Shares, such Series D Non-Voting Common Shares or such Series E Non-Voting Common Shares may, whether or not the Company is being wound-up, be varied with the consent in writing of each registered holder thereof holding such Series C Non-Voting Common Shares, Series D Non-Voting Common Shares or Series E Non-Voting Common Shares, respectively, to the extent such variation significantly and adversely affects the rights, preferences, privileges or voting powers of the Series C Non-Voting Common Shares, Series D Non-Voting Common Shares or Series E Non-Voting Common Shares, respectively, set forth in Bye-law 4.3.

DIVIDENDS AND CAPITALISATION**16. Dividends**

- 16.1** The Board may, subject to these Bye-laws and in accordance with the Act, declare a dividend to be paid to the Members, in proportion to the number of shares held by them, and such dividend may be paid in cash or wholly or partly in specie in which case the Board may fix the value for distribution in specie of any assets. No unpaid dividend shall bear interest as against the Company.
- 16.2** The Board may fix any date as the record date for determining the Members entitled to receive any dividend.
- 16.3** The Company may pay dividends in proportion to the amount paid up on each share where a larger amount is paid up on some shares than on others.
- 16.4** The Board may declare and make such other distributions (in cash or in specie) to the Members as may be lawfully made out of the assets of the Company. No unpaid distribution shall bear interest as against the Company.

17. Power to Set Aside Profits

The Board may, before declaring a dividend, set aside out of the surplus or profits of the Company, such sum as it thinks proper as a reserve to be used to meet contingencies or for equalising dividends or for any other purpose.

18. Method of Payment

- 18.1** Any dividend or other monies payable in respect of a share may be paid by cheque or warrant sent through the post directed to the address of the Member in the Register of Members (in the case of joint Members, the senior joint holder, seniority being determined by the order in which the names stand in the Register of Members), or by direct transfer to such bank account as such Member may direct. Every such cheque shall be made payable to the order of the person to

whom it is sent or to such persons as the Member may direct, and payment of the cheque or warrant shall be a good discharge to the Company. Every such cheque or warrant shall be sent at the risk of the person entitled to the money represented thereby. If two or more persons are registered as joint holders of any shares any one can give an effectual receipt for any dividend paid in respect of such shares.

- 18.2** The Board may deduct from the dividends or distributions payable to any Member all monies due from such Member to the Company on account of calls or otherwise.
- 18.3** Any dividend and or other monies payable in respect of a share which has remained unclaimed for 7 years, or such other period of time as may be required pursuant to the listing standard of the Nasdaq National Market or such other quotation system or exchange applicable to the Company's shares from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company. The payment of any unclaimed dividend or other moneys payable in respect of a share may (but need not) be paid by the Company into an account separate from the Company's own account. Such payment shall not constitute the Company a trustee in respect thereof.
- 18.4** The Company shall be entitled to cease sending dividend cheques and warrants by post or otherwise to a Member if those instruments have been returned undelivered to, or left uncashed by, that Member on at least two consecutive occasions, or, following one such occasion, reasonable enquiries have failed to establish the Member's new address. The entitlement conferred on the Company by this Bye-law 18.4 in respect of any Member shall cease if the Member claims a dividend or cashes a dividend cheque or warrant.

19. Capitalisation

- 19.1** The Board may resolve to capitalise any sum for the time being standing to the credit of any of the Company's share premium or other reserve accounts or to the credit of the profit and loss account or otherwise available for distribution by applying such sum in paying up unissued shares to be allotted as fully paid bonus shares pro-rata (except in connection with the conversion of shares of one class to shares of another class) to the Members.

- 19.2** The Board may resolve to capitalise any sum for the time being standing to the credit of a reserve account or sums otherwise available for dividend or distribution by applying such amounts in paying up in full partly paid or nil paid shares of those Members who would have been entitled to such sums if they were distributed by way of dividend or distribution.

MEETINGS OF MEMBERS

20. Annual General Meetings

The annual general meeting of the Company shall be held in each year (other than the year of incorporation) at such time and place as the President or the Chairman or the Board shall appoint.

21. Special General Meetings

The President or the Chairman or the Board may convene a special general meeting of the Company whenever in their judgment such a meeting is necessary.

22. Requisitioned General Meetings

The Board shall, on the requisition of Members holding at the date of the deposit of the requisition not less than one-tenth of such of the paid up share capital of the Company as at the date of the deposit carries the right to vote at general meetings of the Company, forthwith proceed to convene a special general meeting of the Company and the provisions of the Act shall apply.

23. Notice

23.1 At least ten days' notice of an annual general meeting shall be given to each Member entitled to attend and vote thereat, stating the date, place and time at which the meeting is to be held, that the election of Directors will take place thereat, and as far as practicable, the other business to be conducted at the meeting.

23.2 At least ten days' notice of a special general meeting shall be given to each Member entitled to attend and vote thereat, stating the date, time, place and the general nature of the business to be considered at the meeting.

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- 23.3 The Board may fix any date as the record date for determining the Members entitled to receive notice of and to vote at any general meeting of the Company.
 - 23.4 A general meeting of the Company shall, notwithstanding that it is called on shorter notice than that specified in these Bye-laws, be deemed to have been properly called if it is so agreed by (i) all the Members entitled to attend and vote thereat in the case of an annual general meeting; and (ii) by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving a right to attend and vote thereat in the case of a special general meeting.
 - 23.5 The accidental omission to give notice of a general meeting to, or the non-receipt of a notice of a general meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

24. Giving Notice

- 24.1 A notice may be given by the Company to any Member:
 - (a) by delivering it to such Member in person; or
 - (b) by sending it by letter mail or courier service to such Member's address in the Register of Members or to such other address given for the purpose; or
 - (c) by sending it by electronic means (including cable, telex, telecopier, facsimile, electronic mail or other mode of representing words in a legible form, but not by telephone) in accordance with such directions as may be given by such Member to the Company for the purpose; or
 - (d) by delivering it in accordance with the provisions of the Act pertaining to delivery of electronic records by publication on a website.
- 24.2 Any notice required to be given to a Member shall, with respect to any shares held jointly by two or more persons, be given to whichever of such persons is named first in the Register of Members and notice so given shall be sufficient notice to all the holders of such shares.

- 24.3** Save as provided by Bye-laws 24.4 and 24.5, any notice delivered in accordance with Bye-law 24.1(a), (b) or (c) shall be deemed to have been served at the time when the same would be delivered in the ordinary course of transmission and, in proving such service, it shall be sufficient to prove that the notice was properly addressed and prepaid, if posted, at the time when it was posted, delivered to the courier or to the cable company or transmitted by telex, facsimile, electronic mail, or such other method as the case may be.
- 24.4** Mail notice shall be deemed to have been served seven days after the date on which it is deposited, with postage prepaid, in the mail of any member state of the European Union, the United States, or Bermuda.
- 24.5** Notice delivered in accordance with Bye-law 24.1(d) shall be deemed to have been served at the time when the requirements of the Act in that regard have been met.
- 24.6** The Company shall be under no obligation to send a notice or other document to the address shown for any particular Member in the Register of Members if the Board considers that the legal or practical problems under the laws of, or the requirements of any regulatory body or stock exchange in, the territory in which that address is situated are such that it is necessary or expedient not to send the notice or document concerned to such Member at such address and may require a Member with such an address to provide the Company with an alternative acceptable address for delivery of notices by the Company.

25. Postponement or Cancellation of General Meeting

The Chairman or the President may, and the Secretary on instruction from the Chairman or the President shall, postpone or cancel any general meeting called in accordance with the provisions of these Bye-laws (other than a meeting requisitioned under these Bye-laws) provided that notice of postponement or cancellation is given to each Member before the time for such meeting. Fresh notice of the date, time and place for the postponed or cancelled meeting shall be given to the Members in accordance with the provisions of these Bye-laws.

26. Attendance and Security at General Meetings

- 26.1** Members may participate in any general meeting by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.
- 26.2** The Board may, and at any general meeting, the chairman of such meeting may, make any arrangement and impose any requirement or restriction it or he considers appropriate to ensure the security of a general meeting including, without limitation, requirements for evidence of identity to be produced by those attending the meeting, the searching of their personal property and the restriction of items that may be taken into the meeting place. The Board is, and at any general meeting, the chairman of such meeting is, entitled to refuse entry to a person who refuses to comply with any such arrangements, requirements or restrictions.

27. Quorum at General Meetings

- 27.1** At any general meeting of the Company two or more persons present in person throughout the meeting and representing in person or by proxy in excess of 50% of the total issued voting shares in the Company shall form a quorum for the transaction of business.
- 27.2** If within half an hour from the time appointed for the meeting a quorum is not present, then, in the case of a meeting convened on a requisition, the meeting shall be deemed cancelled and, in any other case, the meeting shall stand adjourned to the same day one week later, at the same time and place or to such other day, time or place as the Secretary may determine. If the meeting shall be adjourned to the same day one week later or the Secretary shall determine that the meeting is adjourned to a specific date, time and place, it is not necessary to give notice of the adjourned meeting other than by announcement at the meeting being adjourned. If the Secretary shall determine that the meeting be adjourned to an unspecified date, time or place, fresh notice of the resumption of the meeting shall be given to each Member entitled to attend and vote thereat in accordance with the provisions of these Bye-laws.

28. Chairman to Preside

Unless otherwise agreed by a majority of those attending and entitled to vote thereat, the Chairman, if there be one, and if not the President, shall act as chairman at all meetings of the Members at which such person is present. In their absence, the Deputy Chairman or Vice President, if present, shall act as chairman and in the absence of all of them a chairman shall be appointed or elected by those present at the meeting and entitled to vote.

29. Voting on Resolutions

- 29.1** Subject to the provisions of the Act and these Bye-laws, any question proposed for the consideration of the Members at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the provisions of these Bye-laws and in the case of an equality of votes the resolution shall fail.
- 29.2** No Member shall be entitled to vote at a general meeting unless such Member has paid all the calls on all shares held by such Member.
- 29.3** At any general meeting a resolution put to the vote of the meeting shall, in the first instance, be voted upon by a show of hands and, subject to any rights or restrictions for the time being lawfully attached to any class of shares and subject to the provisions of these Bye-laws, every Member present in person at such meeting and every person holding a valid proxy at such meeting shall have one vote for each share entitled to vote at the meeting of which such person is the holder or for which such person holds a proxy and shall cast such vote by raising his or her hand.
- 29.4** At any general meeting if an amendment shall be proposed to any resolution under consideration and the chairman of the meeting shall rule on whether the proposed amendment is out of order, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling.
- 29.5** At any general meeting a declaration by the chairman of the meeting that a question proposed for consideration has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in a book containing the minutes of the proceedings of the Company shall, subject to the provisions of these Bye-laws, be conclusive evidence of that fact.

30. Power to Demand a Vote on a Poll

30.1 Notwithstanding the foregoing, a poll may be demanded by any of the following persons:

- (a) the chairman of such meeting; or
- (b) at least three Members present in person or represented by proxy; or
- (c) any Member or Members present in person or represented by proxy and holding between them not less than one-tenth of the total voting rights of all the Members having the right to vote at such meeting; or
- (d) any Member or Members present in person or represented by proxy holding shares in the Company conferring the right to vote at such meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all such shares conferring such right.

30.2 Where a poll is demanded, subject to any rights or restrictions for the time being lawfully attached to any class of shares and subject to the provisions of these Bye-laws, every Member present in person at such meeting and every person holding a valid proxy at such meeting shall have one vote for each share entitled to vote at the meeting of which such person is the holder or for which such person holds a proxy and such vote shall be counted by ballot as described herein, or in the case of a general meeting at which one or more Members are present by telephone, in such manner as the chairman of the meeting may direct and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded and shall replace any previous resolution upon the same matter which has been the subject of a show of hands. A person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

30.3 A poll demanded for the purpose of electing a chairman of the meeting or on a question of adjournment shall be taken forthwith and a poll demanded on any other question shall be taken in such manner and at such time and place at such meeting as the chairman (or acting chairman) of the meeting may direct and any business other than that upon which a poll has been demanded may be proceeded with pending the taking of the poll.

30.4 Where a vote is taken by poll, each person present and entitled to vote shall be furnished with a ballot paper on which such person shall record his vote in such manner as shall be determined at the meeting having regard to the nature of the question on which the vote is taken, and each ballot paper shall be signed or initialed or otherwise marked so as to identify the voter and the registered holder in the case of a proxy. At the conclusion of the poll, the ballot papers shall be examined and counted by a committee of not less than two Members or proxy holders appointed by the chairman for the purpose and the result of the poll shall be declared by the chairman.

31. Voting by Joint Holders of Shares

In the case of joint holders, the vote of the senior who tenders a vote (whether in person or by proxy) shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

32. Instrument of Proxy

32.1 A Member may appoint a proxy by (a) an instrument appointing a proxy in writing in substantially the following form or such other form as the Board may determine from time to time:

Proxy

Enstar Group Limited (the "Company")

I/We, [insert names here], being a Member of the Company with [number] shares, HEREBY APPOINT [name] of [address] or failing him, [name] of [address] to be my/our proxy to vote for me/us at the meeting of the Members to be held on the [] day of [], 200[] and at any adjournment thereof. (Any restrictions on voting to be inserted here.)

Signed this [] day of [], 20[]

Member(s)

or (b) such telephonic, electronic or other means as may be approved by the Board from time to time.

- 32.2 The appointment of a proxy must be received by the Company at the registered office or at such other place or in such manner as is specified in the notice convening the meeting or in any instrument of proxy sent out by the Company in relation to the meeting at which the person named in the appointment proposes to vote, and an appointment of proxy which is not received in the manner so permitted shall be invalid.
- 32.3 A Member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf.
- 32.4 The decision of the chairman of any general meeting as to the validity of any appointment of a proxy shall be final.

33. Representation of Corporate Member

- 33.1 A corporation which is a Member may, by written instrument, authorise such person or persons as it thinks fit to act as its representative at any meeting of the Members and any person so authorised shall be entitled to exercise the same powers on behalf of the corporation which such person represents as that corporation could exercise if it were an individual Member, and that Member shall be deemed to be present in person at any such meeting attended by its authorised representative or representatives.
- 33.2 Notwithstanding the foregoing, the chairman of the meeting may accept such assurances as he thinks fit as to the right of any person to attend and vote at general meetings on behalf of a corporation which is a Member.

34. Adjournment of General Meeting

- 34.1 The chairman of any general meeting at which a quorum is present may with the consent of Members holding a majority of the voting rights of those Members present in person or by proxy (and shall if so directed by Members holding a majority of the voting rights of those Members present in person or by proxy), adjourn the meeting.

- 34.2** In addition, the chairman may adjourn the meeting to another time and place without such consent or direction if it appears to him that:
- (a) it is likely to be impracticable to hold or continue that meeting because of the number of Members wishing to attend who are not present; or
 - (b) the unruly conduct of persons attending the meeting prevents, or is likely to prevent, the orderly continuation of the business of the meeting; or
 - (c) an adjournment is otherwise necessary so that the business of the meeting may be properly conducted.
- 34.3** Unless the meeting is adjourned to a specific date, place and time announced at the meeting being adjourned, fresh notice of the date, place and time for the resumption of the adjourned meeting shall be given to each Member entitled to attend and vote thereat in accordance with the provisions of these Bye-laws.

35. Written Resolutions

- 35.1** Subject to the following, anything which may be done by resolution of the Company in general meeting or by resolution of a meeting of any class of the Members may, without a meeting and without any previous notice being required, be done by resolution in writing signed by, or in the case of a Member that is a corporation whether or not a company within the meaning of the Act, on behalf of, all the Members who at the date of the resolution would be entitled to attend the meeting and vote on the resolution.
- 35.2** A resolution in writing may be signed by, or in the case of a Member that is a corporation whether or not a company within the meaning of the Act, on behalf of, all the Members, or all the Members of the relevant class thereof, in as many counterparts as may be necessary.
- 35.3** A resolution in writing made in accordance with this Bye-law is as valid as if it had been passed by the Company in general meeting or by a meeting of the relevant class of Members, as the case may be, and any reference in any Bye-law to a meeting at which a resolution is passed or to Members voting in favour of a resolution shall be construed accordingly.

35.4 A resolution in writing made in accordance with this Bye-law shall constitute minutes for the purposes of the Act.

35.5 This Bye-law shall not apply to:

- (a) a resolution passed to remove an auditor from office before the expiration of his term of office; or
- (b) a resolution passed for the purpose of removing a Director before the expiration of his term of office.

35.6 For the purposes of this Bye-law, the date of the resolution is the date when the resolution is signed by, or in the case of a Member that is a corporation whether or not a company within the meaning of the Act, on behalf of, the last Member to sign and any reference in any Bye-law to the date of passing of a resolution is, in relation to a resolution made in accordance with this Bye-law, a reference to such date.

36. Directors Attendance at General Meetings

The Directors of the Company shall be entitled to receive notice of, attend and be heard at any general meeting.

DIRECTORS AND OFFICERS

37. Election of Directors

37.1 The Board shall consist of such number of Directors being not less than five Directors and not more than such maximum number of Directors, not exceeding fifteen Directors, as the Board may from time to time determine. A majority of the Board shall consist of Directors who are not residents of the United Kingdom or Switzerland. Subject to the Companies Act and these Bye-laws, the Directors shall be elected or appointed by the Company by resolution and shall serve for such term as the Company by resolution may determine, or in the absence of such determination, until the termination of the next annual general meeting following their appointment. All Directors, upon election or appointment (except upon re-election at an annual general meeting) must provide written acceptance of their appointment, in such form as the Board may think fit, by notice in writing to the Company's registered office within thirty (30) days of their appointment.

- 37.2 The Board may propose any person for election as a Director and may from time to time establish procedures to receive nominations from a Member of persons for election as Directors. Only persons who are proposed or nominated in accordance with this Bye-law shall be eligible for election as Directors.
- 37.3 Where the number of persons validly proposed for re-election or election as a Director is greater than the number of Directors to be elected, the persons receiving the most votes (up to the number of Directors to be elected) shall be elected as Directors, and an absolute majority of the votes cast shall not be a prerequisite to the election of such Directors.
- 37.4 At any general meeting the Board may fill any vacancy left unfilled at such general meeting.

38. Classes of Directors

The Directors shall be divided into three classes designated Class I, Class II and Class III. Each class of Directors shall consist, as nearly as possible, of one third of the total number of Directors constituting the entire Board.

39. Term of Office of Directors

Each Director shall serve for a term ending on the date of the third annual general meeting of shareholders next following the annual general meeting at which such Director was elected, provided, that (i) Directors initially designated by the Board as Class I Directors shall serve for an initial term ending on the date of the first annual general meeting of Members next following the effectiveness of their designation as Class I Directors, (ii) Directors initially designated by the Board as Class II Directors shall serve for an initial term ending on the date of the second annual general meeting of Members next following the effectiveness of their designation Class II Directors, and (iii) Directors initially designated by the Board as Class III Directors shall serve for an initial term ending on the date of the third annual general meeting of Members next following the effectiveness of their designation as Class III Directors. If the number of Directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of Directors in each class as nearly equal as possible,

and any Director of any class elected to fill a vacancy shall hold office for a term that shall coincide with the remaining term of the other Directors of that class, but in no case shall a decrease in the number of Directors shorten the term of any Director then in office. A Director shall hold office until the annual general meeting for the year in which his term expires, subject to his office being vacated pursuant to Bye-law 42.

40. Alternate Directors

There shall be no alternate Directors, and no Member or Director shall have a right to designate any person to attend meetings of the Board or Board committees as a non-voting observer, except with the concurrence of a majority of the Board or committee members in attendance at such meeting.

41. Removal of Directors

- 41.1** Subject to any provision to the contrary in these Bye-laws, the Members entitled to vote for the election of Directors may, at any special general meeting convened and held in accordance with these Bye-laws, remove a Director, only with cause, by the affirmative vote of Members holding at least a majority of the total combined voting power of all issued and outstanding Common Shares after giving effect to any reduction in voting power acquired under Bye-laws 4.7 and 4.8, provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention so to do and be served on such Director not less than 14 days before the meeting and at such meeting the Director shall be entitled to be heard on the motion for such Director's removal.
- 41.2** If a Director is removed from the Board under the provisions of this Bye-law, the Members may fill the vacancy at the meeting at which such Director is removed. In the absence of such election or appointment, the Board may fill the vacancy.
- 41.3** For the purpose of Bye-law 41.1, "cause" shall mean a conviction for a criminal offence involving dishonesty or engaging in conduct which brings the Director or the Company into disrepute and which results in material financial detriment to the Company.

42. Vacancy in the Office of Director

42.1 The office of Director shall be vacated if the Director:

- (a) is removed from office pursuant to these Bye-laws or is prohibited from being a Director by law;
- (b) is or becomes of unsound mind or dies; or
- (c) resigns his office by notice in writing to the Company.

42.2 Subject to Bye-law 41.2, the Board shall have the power to appoint any person as a Director to fill a vacancy on the Board occurring as a result of the death, disability, disqualification or resignation of any Director or as a result of an increase in the size of the Board as permitted by these Bye-laws.

43. Remuneration of Directors

The remuneration (if any) of the Directors shall be deemed to accrue from day to day and shall be determined by the Board or a committee thereof. The Directors may also be paid all travel, hotel and other expenses properly incurred by them in attending and returning from the meetings of the Board, any committee appointed by the Board, general meetings of the Company, or in connection with the business of the Company or their duties as Directors generally.

44. Defect in Appointment of Director

All acts done in good faith by the Board or by a committee of the Board or by any person acting as a Director shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.

45. Directors to Manage Business

The business of the Company shall be managed and conducted by the Board. In managing the business of the Company, the Board may exercise all such powers of the Company as are not, by statute or by these Bye-laws, required to be exercised by the Company in general meeting subject, nevertheless, to these Bye-laws and the provisions of any statute.

46. Powers of the Board of Directors

The Board may:

- (a) appoint, suspend, or remove any manager, secretary, clerk, agent or employee of the Company and may fix their remuneration and determine their duties;
- (b) exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and may issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or any third party;
- (c) appoint one or more Directors to the office of managing director or chief executive officer of the Company, who shall, subject to the control of the Board, supervise and administer all of the general business and affairs of the Company;
- (d) appoint a person to act as manager of the Company's day-to-day business and may entrust to and confer upon such manager such powers and duties as it deems appropriate for the transaction or conduct of such business;
- (e) by power of attorney, appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Board, to be an attorney of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board) and for such period and subject to such conditions as it may think fit and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions so vested in the attorney. Such attorney may, if so authorised under the seal of the Company, execute any deed or instrument under such attorney's personal seal with the same effect as the affixation of the seal of the Company;

- (f) procure that the Company pays all expenses incurred in promoting and incorporating the Company;
- (g) delegate any of its powers (including the power to sub-delegate) to a committee appointed by the Board which may consist partly or entirely of non-Directors, provided that every such committee shall conform to such directions as the Board shall impose on them and provided further that the meetings and proceedings of any such committee shall be governed by the provisions of these Bye-laws regulating the meetings and proceedings of the Board, so far as the same are applicable and are not superseded by directions imposed by the Board;
- (h) delegate any of its powers (including the power to sub-delegate) to any person on such terms and in such manner as the Board may see fit;
- (i) present any petition and make any application in connection with the liquidation or reorganisation of the Company;
- (j) in connection with the issue of any share, pay such commission and brokerage as may be permitted by law; and
- (k) authorise any company, firm, person or body of persons to act on behalf of the Company for any specific purpose and in connection therewith to execute any agreement, document or instrument on behalf of the Company.

47. Register of Directors and Officers

The Board shall cause to be kept in one or more books at the registered office of the Company a Register of Directors and Officers and shall enter therein the particulars required by the Act.

48. Officers

The Officers shall consist of a President and a Vice President or a Chairman and a Deputy Chairman, a Secretary and such additional Officers as the Board may determine all of whom shall be deemed to be Officers for the purposes of these Bye-laws.

49. Appointment of Officers

The Board shall appoint a President and Vice President or a Chairman and Deputy Chairman. The Secretary (and additional Officers, if any) shall be appointed by the Board from time to time.

50. Duties of Officers

The Officers shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to them by the Board from time to time.

51. Remuneration of Officers

The Officers shall receive such remuneration as the Board may determine.

52. Conflicts of Interest

52.1 Any Director, or any Director's firm, partner or any company with whom any Director is associated, may act in any capacity for, be employed by or render services to the Company and such Director or such Director's firm, partner or company shall be entitled to remuneration as if such Director were not a Director. Nothing herein contained shall authorise a Director or Director's firm, partner or company to act as Auditor to the Company.

52.2 A Director who is directly or indirectly interested in a contract or proposed contract or arrangement with the Company shall declare the nature of such interest as required by the Act.

52.3 Following a declaration being made pursuant to this Bye-law, and unless disqualified by the chairman of the relevant Board meeting, a Director may vote in respect of any contract or proposed contract or arrangement in which such Director is interested and may be counted in the quorum for such meeting.

53. Indemnification and Exculpation of Directors and Officers

53.1 The Directors, Secretary and other Officers (such term to include any person appointed to any committee by the Board) for the time being acting in relation to any of the affairs of the Company, any subsidiary thereof and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company or any subsidiary thereof and every one of them,

and their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts, and none of them shall be answerable for the acts, receipts, neglects or defaults of the others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto, provided that this indemnity shall not extend to any matter in which any of such persons is found, in a final judgment or decree not subject to appeal, to have committed fraud or dishonesty. Each Member agrees to waive any claim or right of action such Member might have, whether individually or by or in the right of the Company, against any Director or Officer on account of any action taken by such Director or Officer, or the failure of such Director or Officer to take any action in the performance of his duties with or for the Company or any subsidiary thereof, provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director or Officer.

- 53.2** The Company may purchase and maintain insurance for the benefit of any Director or Officer of the Company against any liability incurred by him under the Act in his capacity as a Director or Officer of the Company or indemnifying such Director or Officer in respect of any loss arising or liability attaching to him by virtue of any rule of law in respect of any negligence, default, breach of duty or breach of trust of which the Director or Officer may be guilty in relation to the Company or any subsidiary thereof.
- 53.3** The rights conferred under this Bye-law 53 shall not be exclusive of any other right that any individual may have or hereafter acquire under any statute, Bye-law, resolution of Members or Directors, agreement, or otherwise and shall continue as to an individual who has ceased to be a Director, Officer, employee or agent, as applicable, and shall inure to the benefit of his or her heirs, executors, administrators, and personal representatives.

53.4 The Company hereby acknowledges that the Director designated by GSCP pursuant to Section 7.02 of the Investment Agreement may have certain rights to indemnification, advancement of expenses and/or insurance provided by GSCP and certain of their affiliates (collectively, the "Fund Indemnitors"). The Company hereby agrees (i) that it is the indemnitee of first resort (i.e., its obligations to such person are primary and any obligation of the Fund Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by such person are secondary) with respect to any actions, costs, charges, losses, damages or expenses incurred or sustained in connection with the execution by such person of his or her duties as a Director of the Company, (ii) that it shall be required to advance the full amount of such expenses incurred by such person and shall be liable for the full amount of all such expenses, judgments, penalties, fines and amounts paid in settlement to the extent legally permitted and as required by the terms of these Bye-laws of the Company (or any other agreement between the Company and such person), without regard to any rights such person may have, or may be pursuing, against the Fund Indemnitors, and (iii) that it irrevocably waives, relinquishes and releases the Fund Indemnitors from any and all claims against the Fund Indemnitors for contribution, subrogation or any other recovery of any kind in respect thereof. The Company further agrees that no advancement or payment by the Fund Indemnitors on behalf of such person with respect to any claim for which such person has sought indemnification from the Company shall affect the foregoing and the Fund Indemnitors shall be subrogated to the extent of such advancement or payment to all of the rights of recovery of such person against the Company. The Company and such person agree that the Fund Indemnitors are express third party beneficiaries of the terms of this Bye-law 53.4.

53A Corporate Opportunity

The provisions of this Bye-law 53A are set forth to regulate and define the conduct of certain affairs of the Company as they may involve GSCP, its affiliates and their officers and directors, and the powers, rights, duties and liabilities of the Company, its affiliates and their officers, directors, employees and shareholders in connection therewith:

- (a) Subject to any express contractual provisions to the contrary, GSCP, its affiliates and its and their respective directors, officers, partners and employees (collectively the “GSCP Parties”) shall have the right to, and shall have no duty not to: (i) engage in the same or similar business activities or lines of business as the Company, (ii) do business with any client or customer of the Company and (iii) employ or otherwise engage any Officer, Director or employee of the Company; and, in each case, to the extent permitted under Bermuda law, no GSCP Party shall be liable to the Company or its Members for breach of any fiduciary duty by reason of any such activities of any GSCP Party or of such person’s participation therein. In the event that any GSCP Party acquires knowledge of a potential transaction or matter (other than knowledge acquired through a GSCP Party acting in his or her capacity as Director from the Company or its Directors, Officers or employees) that may be a corporate opportunity for both a GSCP Party and the Company, none of the GSCP Parties shall have any duty whatsoever to communicate or present such corporate opportunity to the Company and, to the extent permitted under Bermuda law, shall not be liable to the Company or its Members for breach of any fiduciary duty as a Member of the Company by reason of the fact that a GSCP Party pursues or acquires such corporate opportunity for itself, directs such corporate opportunity to another person or entity or does not present such corporate opportunity to the Company;
- (b) For the purposes of this Bye-law 53A “corporate opportunities” shall include, but not be limited to, business opportunities that the Company is financially able to undertake, which are, from their nature, in the line of the Company’s business, are of practical advantage to it and are ones in which the Company has an interest or a reasonable expectancy, and with respect to which the interest of any GSCP Party, could be brought into conflict with that of the Company;

- (c) Any person or entity purchasing or otherwise acquiring any interest in Shares of the Company shall be deemed to have notice of and consented to the provisions of this Bye-law 53A;
- (d) Notwithstanding anything in these Bye-laws to the contrary and in addition to any vote of the Board required by these Bye-laws or the Act, until the occurrence of the Operative Date, the affirmative vote of at least three-quarters of the votes of all the Common Shares then outstanding entitled to be cast thereon shall be required to alter, amend or repeal, or adopt any provision inconsistent with, any provision of this Bye-law 53A. "Operative Date" shall mean the later of (i) the first date on which GSCP ceases to own beneficially (excluding for such purposes any shares of the Company beneficially owned by GSCP but not for its own account, including (in such exclusion) beneficial ownership which arises by virtue of some entity that is an affiliate of GSCP being a sponsor or advisor of a mutual or similar fund that beneficially owns Common Shares) at least 5% of the outstanding shares of the Company and (ii) the first date on which no Director is a GSCP Party.

MEETINGS OF THE BOARD OF DIRECTORS

54. Board Meetings

The Board may meet for the transaction of business, adjourn and otherwise regulate its meetings as it sees fit, provided any such meetings shall occur in Bermuda. Subject to the provisions of these Bye-laws, a resolution put to the vote at a meeting of the Board shall be carried by the affirmative votes of a majority of the votes cast and in the case of an equality of votes the resolution shall fail.

55. Notice of Board Meetings

The Chairman or a majority of the Directors may, and the Secretary on the requisition of such Directors shall, at any time summon a meeting of the Board upon at least five days' prior notice, stating the date, place and time at which the meeting is to be held. Notice of a meeting of the Board shall be deemed to be duly given to a Director if it is given to such Director verbally (in person or by telephone) or otherwise communicated or sent to such Director by post, cable, telex, telecopier, facsimile, electronic mail or other mode of representing words in a legible form at such Director's last known address or any other address given by such Director to the Company for this purpose.

56. Participation in Meetings by Telephone

Directors may participate in any meeting of the Board by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, provided, that no Director may participate by telephone, electronic or other communication facilities from the United Kingdom, the United States or Switzerland, and participation in such a meeting shall constitute presence in person at such meeting.

57. Quorum at Board Meetings

The quorum necessary for the transaction of business at a meeting of the Board shall be a majority of the Directors.

58. Board to Continue in the Event of Vacancy

The Board may act notwithstanding any vacancy in its number but, if and so long as its number is reduced below the number fixed by these Bye-laws as the quorum necessary for the transaction of business at meetings of the Board, the continuing Directors or Director may act for the purpose of (i) summoning a general meeting of the Company; or (ii) preserving the assets of the Company.

59. Chairman to Preside

Unless otherwise agreed by a majority of the Directors attending, the Chairman, if there be one, and if not, the President shall act as chairman at all meetings of the Board at which such person is present. In their absence the Deputy Chairman or Vice President, if present, shall act as chairman and in the absence of all of them a chairman shall be appointed or elected by the Directors present at the meeting.

60. Written Resolutions

A resolution signed by all the Directors, which may be in counterparts, shall be as valid as if it had been passed at a meeting of the Board duly called and constituted, such resolution to be effective on the date on which the last Director signs the resolution.

61. Validity of Prior Acts of the Board

No regulation or alteration to these Bye-laws made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if that regulation or alteration had not been made.

CORPORATE RECORDS**62. Minutes**

The Board shall cause minutes to be duly entered in books provided for the purpose:

- (a) of all elections and appointments of Officers;
- (b) of the names of the Directors present at each meeting of the Board and of any committee appointed by the Board; and
- (c) of all resolutions and proceedings of general meetings of the Members, meetings of the Board, and meetings of committees appointed by the Board.

63. Place Where Corporate Records Kept

Minutes prepared in accordance with the Act and these Bye-laws shall be kept by the Secretary at the registered office of the Company.

64. Form and Use of Seal

64.1 The seal of the Company shall be in such form as the Board may determine. The Board may adopt one or more duplicate seals for use in or outside Bermuda.

64.2 The seal of the Company shall not be affixed to any instrument except attested by the signature of a Director and the Secretary or any two Directors, or any person appointed by the Board for that purpose, provided that any Director, Officer or Resident Representative, may affix the seal of the Company attested by such Director, Officer or Resident Representative's signature to any authenticated copies of these Bye-laws, the incorporating documents of the Company, the minutes of any meetings or any other documents required to be authenticated by such Director, Officer or Resident Representative.

ACCOUNTS

65. Books of Account

65.1 The Board shall cause to be kept proper records of account with respect to all transactions of the Company and in particular with respect to:

- (a) all sums of money received and expended by the Company and the matters in respect of which the receipt and expenditure relates;
- (b) all sales and purchases of goods by the Company; and
- (c) all assets and liabilities of the Company.

65.2 Such records of account shall be kept at the registered office of the Company, or subject to the provisions of the Act, at such other place as the Board thinks fit and shall be available for inspection by the Directors during normal business hours.

66. Financial Year End

The financial year end of the Company may be determined by resolution of the Board and failing such resolution shall be 31st December in each year.

AUDITS

67. Annual Audit

Subject to any rights to waive laying of accounts or appointment of an Auditor pursuant to the Act, the accounts of the Company shall be audited at least once in every year.

68. Appointment of Auditors

68.1 Subject to the provisions of the Act, at the annual general meeting or at a subsequent special general meeting in each year, the Members shall appoint an independent representative of the Members to serve as the registered independent accounting firm that acts as Auditor of the accounts of the Company.

68.2 The Auditor may be a Member but no Director, Officer or employee of the Company shall, during his continuance in office, be eligible to act as an Auditor of the Company.

69. Remuneration of Auditors

The remuneration of the Auditor shall be fixed by the Audit Committee of the Board or in such manner as the Members may determine.

70. Duties of Auditors

70.1 The financial statements provided for by these Bye-laws shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards.

70.2 The generally accepted auditing standards referred to in this Bye-law may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be provided for in the Act. If so, the financial statements and the report of the Auditor shall identify the generally accepted auditing standards used.

71. Access to Records

The Auditor shall at all reasonable times have access to all books kept by the Company and to all accounts and vouchers relating thereto, and the Auditor may call on the Directors or Officers of the Company for any information in their possession relating to the books or affairs of the Company.

72. Financial Statements

Subject to any rights to waive laying of accounts pursuant to the provisions of the Act, financial statements as required by the Act shall be laid before the Members in general meeting.

73. Distribution of Auditors Report

The report of the Auditor shall be submitted to the Members in general meeting.

74. Vacancy in the Office of Auditor

If the office of Auditor becomes vacant by the resignation or death or the Auditor, or by the Auditor becoming incapable of acting by reason of illness or other disability at a time when the Auditor's services are required, the vacancy thereby created shall be filled in accordance with the Act.

VOLUNTARY WINDING-UP AND DISSOLUTION**75. Winding-Up**

If the Company shall be wound up the liquidator may, with the sanction of a resolution of the Members, divide amongst the Members in specie or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in the trustees upon such trusts for the benefit of the Members as the liquidator shall think fit, but so that no Member shall be compelled to accept any shares or other securities or assets whereon there is any liability.

CHANGES TO CONSTITUTION**76. Changes to Bye-laws**

No Bye-law shall be rescinded, altered or amended and no new Bye-law shall be made until the same has been approved by a resolution of the Board and by a resolution of the Members.

77. Discontinuance

The Board may exercise all the powers of the Company to discontinue the Company to a jurisdiction outside Bermuda pursuant to the Act.

CERTAIN SUBSIDIARIES

78. Voting of Subsidiary Shares

Notwithstanding any other provision of these Bye-laws to the contrary, if the Company or a Subsidiary of the Company, as the case may be, is required or entitled to vote at a general meeting of any direct or indirect subsidiary of the Company, the Directors shall refer the subject matter of any vote regarding the appointment, removal or remuneration of directors to the Members of the Company on a poll (subject to Bye-laws 4.7 through 4.10) and seek authority from the Members for the Company's or the Subsidiary's, as the case may be, corporate representative or proxy to vote in favour of the resolution proposed by the subsidiary. The Directors shall cause the Company's or the Subsidiary's, as the case may be, corporate representative or proxy to vote the Company's or the Subsidiary's shares in the subsidiary (with respect to a resolution covered by the foregoing sentence) pro rata to the votes received at the general meeting of the Company, with votes for or against the directing resolution being taken, respectively, as an instruction for the Company's or the Subsidiary's, as the case may be, corporate representative or proxy to vote the appropriate proportion of its shares for and the appropriate proportion of its shares against the resolution proposed by the subsidiary.

79. Bye-laws or Articles of Association of Certain Subsidiaries

The Board in its discretion shall require that the Bye-laws or Articles of Association of each subsidiary of the Company, organized under the laws of a jurisdiction outside the United States of America, shall contain provisions substantially similar to Bye-law 78. The Company shall enter into agreements with each such subsidiary, as reasonably necessary, to effectuate or implement this Bye-law.

AMENDED AND RESTATED

SHAREHOLDERS' AGREEMENT

between

BAYSHORE HOLDINGS LIMITED

and

THE SHAREHOLDERS NAMED HEREIN

dated as of

May 8th, 2014

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AMENDED AND RESTATED SHAREHOLDERS' AGREEMENT

This Amended and Restated Shareholders' Agreement (this "Agreement"), dated as of May 8th, 2014, is entered into among Bayshore Holdings Limited, a Bermuda exempted company (the "Company"), Kenmare Holdings Ltd (the "Enstar Shareholder"), Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P. (each, a "Trident Shareholder" and, collectively, the "Trident Shareholders" and, together with the Enstar Shareholder, the "Initial Shareholders"), Dowling Capital Partners I, L.P. (the "Dowling Shareholder"), each other Person who after the date hereof acquires Common Shares of the Company and becomes a party to this Agreement by executing a Joinder Agreement (such Persons, collectively with the Initial Shareholders and the Dowling Shareholder, the "Shareholders") and, solely for purposes of **Section 3.05** hereof, Enstar Group Limited ("Enstar").

RECITALS

WHEREAS, immediately prior to the date hereof, the Enstar Shareholder owned 60% of the issued and outstanding Common Shares of the Company and the Trident Shareholders collectively owned 40% of the issued and outstanding Common Shares of the Company;

WHEREAS, on the date hereof, the Dowling Shareholder will acquire 11,254 Common Shares of the Company from the Initial Shareholders; and

WHEREAS, the Initial Shareholders, the Dowling Shareholder and the other parties hereto deem it in their best interests and in the best interests of the Company to amend and restate the Shareholders' Agreement entered into on April 1, 2014, by and among the Company, the Initial Shareholders and Enstar, and to set forth in this Agreement their respective rights and obligations in connection with their investment in the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I DEFINITIONS

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in this Article I.

"Affiliate" means with respect to any Person, any other Person who, directly or indirectly (including through one or more intermediaries), controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control," when

used with respect to any specified Person, shall mean the power, direct or indirect, to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or partnership or other ownership interests, by contract or otherwise; and the terms “controlling” and “controlled” shall have correlative meanings.

“**Agreement**” has the meaning set forth in the preamble.

“**Applicable Law**” means all applicable provisions of (a) constitutions, treaties, statutes, laws (including the common law), rules, regulations, decrees, ordinances, codes, proclamations, declarations or orders of any Governmental Authority, (b) any consents or approvals of any Governmental Authority and (c) any orders, decisions, advisory or interpretative opinions, injunctions, judgments, awards, decrees of, or agreements with, any Governmental Authority.

“**Board**” has the meaning set forth in **Section 2.01(a)**.

“**Business Day**” means a day other than a Saturday, Sunday or other day on which commercial banks in Bermuda are authorized or required to close.

“**Bye-laws**” means the bye-laws of the Company, as amended, modified, supplemented or restated from time to time in accordance with the terms of this Agreement.

“**Call Right**” has the meaning set forth in **Section 3.05(a)**.

“**Change of Control**” means any transaction or series of related transactions (as a result of a tender offer, merger, consolidation or otherwise) that results in, or that is in connection with, (a) any Third Party Purchaser or “group” (within the meaning of Section 13(d)(3) of the Exchange Act) of Third Party Purchasers acquiring beneficial ownership, directly or indirectly, of all or substantially all of the then issued and outstanding Common Shares or (b) the sale, lease, exchange, conveyance, transfer or other disposition (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of the Company and its Subsidiaries, on a consolidated basis, to any Third Party Purchaser or “group” (within the meaning of Section 13(d)(3) of the Exchange Act) of Third Party Purchasers (including any liquidation, dissolution or winding up of the affairs of the Company, or any other distribution made, in connection therewith).

“**Commitment Letters**” has the meaning set forth in **Section 6.01(e)**.

“**Common Shares**” means the common shares, par value \$1.00 per share, of the Company and any securities issued in respect thereof, or in substitution therefor, in connection with any stock split, dividend or combination, or any reclassification, recapitalization, merger, consolidation, exchange or similar reorganization.

“Company” has the meaning set forth in the preamble.

“Director” has the meaning set forth in **Section 2.01(a)**.

“Dowling Shareholder” has the meaning set forth in the preamble and shall also include any Permitted Transferees of the Dowling Shareholder that become Shareholders pursuant to the terms of this Agreement.

“Drag-along Notice” has the meaning set forth in **Section 3.03(b)**.

“Drag-along Sale” has the meaning set forth in **Section 3.03(a)**.

“Drag-along Shareholder” has the meaning set forth in **Section 3.03(a)**.

“Enstar” has the meaning set forth in the preamble.

“Enstar Director” has the meaning set forth in **Section 2.01(a)**.

“Enstar Shareholder” has the meaning set forth in the preamble and shall also include any Permitted Transferees of the Enstar Shareholder that become Shareholders pursuant to the terms of this Agreement.

“Exchange Act” means the United States Securities Exchange Act of 1934, as amended, or any successor federal statute, and the rules and regulations thereunder, which shall be in effect at the time.

“Excluded Securities” means any Common Shares or other equity securities issued in connection with (a) a grant to any existing or prospective consultants, employees, officers or Directors pursuant to any stock option, employee stock purchase or similar equity-based plans or other compensation agreement; (b) the exercise or conversion of options to purchase Common Shares, or Common Shares issued to any existing or prospective consultants, employees, officers or Directors pursuant to any stock option, employee stock purchase or similar equity-based plans or any other compensation agreement; (c) any acquisition by the Company of the stock, assets, properties or business of any Person; (d) any merger, consolidation or other business combination involving the Company; (e) the commencement of any Initial Public Offering or any transaction or series of related transactions involving a Change of Control; (f) a stock split, stock dividend or any similar recapitalization; or (g) any issuance of Financing Equity.

“Exercise Period” has the meaning set forth in **Section 4.01(c)**.

“Exercising Shareholder” has the meaning set forth in **Section 4.01(d)**.

“Extended ROFO Notice Period” has the meaning set forth in **Section 3.02(d)**.

“Fair Market Value” has the meaning set forth in **Section 3.05(c)**.

“Financing Equity” means any Common Shares, warrants or other similar rights to purchase Common Shares issued to lenders or other institutional investors (excluding the Shareholders) in any arm’s length transaction providing debt financing to the Company.

“Fiscal Year” means for financial accounting purposes, January 1 to December 31.

“GAAP” means United States generally accepted accounting principles in effect from time to time.

“Government Approval” means any authorization, consent, approval, waiver, exception, variance, order, exemption, publication, filing, declaration, concession, grant, franchise, agreement, permission, permit, or license of, from or with any Governmental Authority, the giving notice to, or registration with, any Governmental Authority or any other action in respect of any Governmental Authority.

“Governmental Authority” means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

“Independent Appraiser” has the meaning set forth in **Section 3.05(c)(i)**.

“Information” has the meaning set forth in **Section 4.03(b)**.

“Initial Public Offering” means any offering of Common Shares of the Company, or shares or other equity interests of any Material Subsidiary, pursuant to a registration statement filed in accordance with the Securities Act.

“Initial Shareholders” has the meaning set forth in the preamble and shall also include any Permitted Transferees of the Enstar Shareholder and the Trident Shareholders that become Shareholders, but shall not include the Dowling Shareholder.

“Investors Agreement” has the meaning set forth in **Section 6.01(e)**.

“Issuance Notice” has the meaning set forth in **Section 4.01(b)**.

“Joinder Agreement” means the joinder agreement in form and substance of Exhibit A attached hereto.

“Lien” means any lien, claim, charge, mortgage, pledge, security interest, option, preferential arrangement, right of first offer, encumbrance or other restriction or limitation of any nature whatsoever.

“Lock-up Period” has the meaning set forth in **Section 3.01(a)**.

“Material Subsidiary” means Torus and any other material direct or indirect Subsidiary of the Company.

“Memorandum of Association” means the memorandum of association of the Company, as filed on June 20, 2013 with the Registrar of Companies of Bermuda and as amended, modified, supplemented or restated from time to time in accordance with the terms of this Agreement.

“New Securities” has the meaning set forth in **Section 4.01(a)**.

“Non-exercising Shareholder” has the meaning set forth in **Section 4.01(d)**.

“Offered Shares” has the meaning set forth in **Section 3.02(a)**.

“Offering Shareholder” has the meaning set forth in **Section 3.02(a)**.

“Offering Shareholder Notice” has the meaning set forth in **Section 3.02(b)**.

“Organizational Documents” means the Bye-laws and the Memorandum of Association.

“Over-allotment Exercise Period” has the meaning set forth in **Section 4.01(d)**.

“Over-allotment New Securities” has the meaning set forth in **Section 4.01(d)**.

“Over-allotment Notice” has the meaning set forth in **Section 4.01(d)**.

“Participation Notice” has the meaning set forth in **Section 3.05(b)**.

“Permitted Transferee” means with respect to any Shareholder, any Affiliate of such Shareholder.

“Person” means an individual, corporation, company, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association or other entity.

“Pre-emptive Pro Rata Portion” has the meaning set forth in **Section 4.01(c)**.

“Pre-emptive Shareholder” has the meaning set forth in **Section 4.01(a)**.

“Proposed Transferee” has the meaning set forth in **Section 3.04(a)**.

“Purchasing Shareholder” has the meaning set forth in **Section 3.02(d)**.

“Put Notice” has the meaning set forth in **Section 3.05(b)**.

“Put Notice Period” has the meaning set forth in **Section 3.05(b)**.

“Put Right” has the meaning set forth in **Section 3.05(a)**.

“Related Party Agreement” means any agreement, arrangement or understanding between (a) (i) the Company and (ii) any Shareholder or any Affiliate of a Shareholder or any Director, officer or employee of the Company, as such agreement may be amended, modified, supplemented or restated in accordance with the terms of this Agreement, and (b) (i) Torus or any other direct or indirect Subsidiary of the Company and (ii) the Company, any Shareholder or any Affiliate of Torus, the Company, a Shareholder or any Director, officer or employee of Torus or any direct or indirect Subsidiary of the Company, as such agreement may be amended, modified, supplemented or restated in accordance with the terms of this Agreement.

“Relevant Shareholder(s)” has the meaning set forth in **Section 3.05(c)**.

“Representative” means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants and other agents of such Person and its Affiliates (*provided, that* portfolio companies of the Trident Shareholders shall not be Representatives).

“ROFO Notice” has the meaning set forth in **Section 3.02(d)**.

“ROFO Notice Period” has the meaning set forth in **Section 3.02(b)**.

“Sale Notice” has the meaning set forth in **Section 3.04(b)**.

“Securities Act” means the United States Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations thereunder, which shall be in effect at the time.

“Selling Shareholder” has the meaning set forth in **Section 3.04(a)**.

“Share Purchase Agreement” has the meaning set forth in **Section 6.01(e)**.

“Shareholders” has the meaning set forth in the preamble.

“Subsidiary” means with respect to any Person, any other Person of which a majority of the outstanding shares or other equity interests having the power to vote for directors or comparable managers are owned, directly or indirectly, by the first Person.

“Tag-along Notice” has the meaning set forth in **Section 3.04(c)**.

“Tag-along Period” has the meaning set forth in **Section 3.04(c)**.

“Tag-along Sale” has the meaning set forth in **Section 3.04(a)**.

“Tag-along Shareholder” has the meaning set forth in **Section 3.04(a)**.

“Third Party Purchaser” means any Person who, immediately prior to the contemplated transaction, (a) does not directly or indirectly own or have the right to acquire any outstanding Common Shares or (b) is not a Permitted Transferee of any Person who directly or indirectly owns or has the right to acquire any Common Shares.

“Torus” means Torus Insurance Holdings Limited.

“Transfer” means to, directly or indirectly, sell, transfer, assign, pledge, encumber, hypothecate or similarly dispose of, either voluntarily or involuntarily, or to enter into any contract, option or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation or similar disposition of, any Common Shares owned by a Person or any interest (including a beneficial interest) in any Common Shares owned by a Person.

“Trident Director” has the meaning set forth in **Section 2.01(a)**.

“Trident Shareholder” has the meaning set forth in the preamble and shall also include any Permitted Transferees of the Trident Shareholder that become Shareholders pursuant to the terms of this Agreement.

“Waived ROFO Transfer Period” has the meaning set forth in **Section 3.02(f)**.

ARTICLE II **MANAGEMENT AND OPERATION OF THE COMPANY**

Section 2.01 Board of Directors.

(a) The Shareholders agree that the business and affairs of the Company shall be managed through a board of directors (the “**Board**”) consisting of five members (each, a “**Director**”). The Directors shall be elected to the Board in accordance with the following procedures:

(i) The Enstar Shareholder shall have the right to designate three Directors, who shall initially be Paul O’Shea, Nick Packer and Richard Harris (the “**Enstar Directors**”); and

(ii) The Trident Shareholders shall have the right to designate two Directors, who shall initially be Darran A. Baird and James D. Carey (the “**Trident Directors**”).

Notwithstanding the foregoing, the Enstar Director(s) present at any meeting of the Board or committee thereof shall collectively exercise voting power equal to the Enstar Shareholder’s percentage ownership of the Company divided by the aggregate percentage ownership of the Company held by the Enstar Shareholder and the Trident Shareholders, and the Trident Director(s) present at any meeting of the Board or committee thereof shall collectively exercise voting power equal to the Trident Shareholders’ percentage ownership of the Company divided by the aggregate percentage ownership of the Company held by the Enstar Shareholder and the Trident Shareholders.

(b) Each Shareholder shall vote all Common Shares over which such Shareholder has voting control and shall take all other necessary or desirable actions within such Shareholder's control (including in its capacity as shareholder, director, member of a board committee or officer of the Company or otherwise, and whether at a regular or special meeting of the Shareholders or by written consent in lieu of a meeting) to elect to the Board any individual designated by an Initial Shareholder pursuant to **Section 2.01(a)**.

(c) Each Initial Shareholder shall have the right at any time to remove (with or without cause) any Director designated by such Initial Shareholder for election to the Board and each other Shareholder shall vote all Common Shares over which such Shareholder has voting control and shall take all other necessary or desirable actions within such Shareholder's control (including in its capacity as shareholder, director, member of a board committee or officer of the Company or otherwise, and whether at a regular or special meeting of the Shareholders or by written consent in lieu of a meeting) to remove from the Board any individual designated by such Initial Shareholder that such Initial Shareholder desires to remove pursuant to this **Section 2.01(c)**. Except as provided in the preceding sentence, unless an Initial Shareholder shall otherwise consent in writing, no other Shareholder shall take any action to cause the removal of any Director(s) designated by an Initial Shareholder.

(d) In the event a vacancy is created on the Board at any time and for any reason (whether as a result of death, disability, retirement, resignation or removal pursuant to **Section 2.01(c)**), the Initial Shareholder who designated such individual shall have the right to designate a different individual to replace such Director and each other Shareholder shall vote all Common Shares over which such Shareholder has voting control and shall take all other necessary or desirable actions within such Shareholder's control (including in its capacity as shareholder, director, member of a board committee or officer of the Company or otherwise, and whether at a regular or special meeting of the Shareholders or by written consent in lieu of a meeting) to elect to the Board any individual designated by such Initial Shareholder.

(e) The Board shall have the right to establish any committee of Directors as the Board shall deem appropriate from time to time. Subject to this Agreement, the Organizational Documents and Applicable Law, committees of the Board shall have the rights, powers and privileges granted to such committee by the Board from time to time. Any delegation of authority to a committee of Directors to take any action must be approved in the same manner as would be required for the Board to approve such action directly. Any committee of Directors shall be composed of the same proportion of Enstar Directors and Trident Directors as the Initial Shareholders shall then be entitled to appoint to the Board pursuant to this **Section 2.01**.

(f) The presence of a majority of Directors then in office shall constitute a quorum; *provided, that* at least one Trident Director is present at such meeting. If a quorum is not achieved at any duly called meeting, such meeting may be postponed to a time no earlier than 48 hours after written notice of such postponement has been given to the Directors. If no Trident Director is present for three consecutive meetings, then the presence, in person or by proxy, of Directors designated by Shareholders holding at least 51% of the Common Shares shall constitute a quorum for the next meeting.

Section 2.02 Voting Arrangements. In addition to any vote or consent of the Board or the Shareholders of the Company required by Applicable Law, without the consent of the Trident Shareholders the Company shall not take any action or enter into any commitment to take any action to (and shall cause its Material Subsidiaries to not take any action or enter into any commitment to take any action to):

- (a) amend, modify or waive the Organizational Documents or the charter, bye-laws or other organizational documents of any Material Subsidiary;
- (b) make any material changes in the tax or accounting methods or policies or the tax elections of the Company or any Material Subsidiary (other than as required by Applicable Law or GAAP) that would have a materially adverse impact on the Trident Shareholders;
- (c) enter into, amend in any material respect, waive or terminate any Related Party Agreement other than (i) the entry into a Related Party Agreement that is on an arm's length basis and on terms no less favorable to the Company or the applicable Material Subsidiary than those that could be obtained from an unaffiliated third party and (ii) any reinsurance or other risk transfer arrangement with any Affiliate of the Enstar Shareholder in which all or substantially all of the underlying insurance risk is borne by the Affiliate of the Enstar Shareholder, *provided, however,* that any such reinsurance or other risk transfer transaction provides the Company a market rate fronting fee;
- (d) enter into or effect any material transaction or series of related transactions outside of the ordinary course of business involving the purchase, lease, license, exchange or other acquisition (including by merger, consolidation, acquisition of stock or acquisition of assets) by the Company or any Material Subsidiary of any assets and/or equity interests of any Person that are material in amount to the Company and its Subsidiaries taken as a whole, other than the amalgamation of a subsidiary of the Company with Torus;
- (e) except for a Change of Control effected in accordance with **Section 3.03** which will not require the consent of the Trident Shareholders, enter into or effect any material transaction or series of related transactions outside of the ordinary course of business involving the sale, lease, license, exchange or other disposition (including by merger, consolidation, sale of stock or sale of assets) by the Company or any Material Subsidiary of any stock or assets that are material in amount to the Company and its Subsidiaries taken as a whole;

(f) grant or authorize the grant of Common Shares or other equity securities of the Company or any Subsidiary of the Company in an amount greater than 10% of the value of the then-outstanding Common Shares to any existing or prospective officers, directors, employees or consultants of the Company or any Subsidiary of the Company pursuant to any stock option, employee stock purchase or similar equity-based plans or other compensation agreements;

(g) initiate or consummate an Initial Public Offering or make a public offering and sale of Common Shares or any other securities; or

(h) dissolve, wind-up or liquidate the Company or any Material Subsidiary or initiate a bankruptcy proceeding involving the Company or any Material Subsidiary.

For purposes of this **Section 2.02**, the “ordinary course of business” of the Company and its Subsidiaries shall include the acquisition of insurance and reinsurance companies in run-off and portfolios of insurance and reinsurance business in run-off.

Section 2.03 CEO Matters. Prior to taking any action or entering into any commitment to take any action to appoint or remove (with or without cause) the Company’s chief executive officer or enter into or amend any material term of any employment agreement or arrangement with the Company’s chief executive officer, the Company shall obtain the consent of both the Enstar Shareholder and the Trident Shareholders. The Company shall consult with, but need not obtain the consent of, the Trident Shareholder prior to taking any action or entering into any commitment to take any action to appoint or remove (with or without cause) any Material Subsidiary’s chief executive officer or enter into or amend any material term of any employment agreement or arrangement with any Material Subsidiary’s chief executive officer.

ARTICLE III TRANSFER OF INTERESTS

Section 3.01 General Restrictions on Transfer.

(a) Except as permitted pursuant to **Section 3.01(b)**, each Shareholder agrees that such Shareholder will not, directly or indirectly, voluntarily or involuntarily Transfer any of its Common Shares prior to April 1, 2019 (the “**Lock-up Period**”).

(b) The provisions of **Section 3.01(a)**, **Section 3.02**, **Section 3.03** and **Section 3.04** shall not apply to any of the following Transfers by any Shareholder of any of its Common Shares (i) to a Permitted Transferee, (ii) pursuant to a merger, consolidation or other business combination of the Company with a Third Party Purchaser that has been approved in

compliance with **Section 2.02(e)** or (iii) which is otherwise approved in writing by Shareholders holding not less than two-thirds of the issued and outstanding Common Shares of the Company immediately prior to the Transfer.

(c) In addition to any legends required by Applicable Law, each certificate (if any) representing the Common Shares of the Company shall bear a legend substantially in the following form (and if the Common Shares are not certificated, the Company's ledger shall include a notation substantially in the following form omitting the reference to a certificate):

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A SHAREHOLDERS' AGREEMENT (A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY). NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF SUCH SHAREHOLDERS' AGREEMENT AND (A) PURSUANT TO A REGISTRATION STATEMENT EFFECTIVE UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR (B) PURSUANT TO AN EXEMPTION FROM REGISTRATION THEREUNDER. THE HOLDER OF THIS CERTIFICATE, BY ACCEPTANCE OF THIS CERTIFICATE, AGREES TO BE BOUND BY ALL OF THE PROVISIONS OF SUCH SHAREHOLDERS' AGREEMENT."

(d) Prior notice shall be given to the Company by the transferor of any Transfer (whether or not to a Permitted Transferee) of any Common Shares. Prior to consummation of any Transfer by any Shareholder of any of its Common Shares, such party shall cause the transferee thereof to execute and deliver to the Company a Joinder Agreement and agree to be bound by the terms and conditions of this Agreement. Upon any Transfer by any Shareholder of any of its Common Shares, in accordance with the terms of this Agreement, the transferee thereof shall be substituted for, and shall assume all the rights and obligations under this Agreement of, the transferor thereof.

(e) Notwithstanding any other provision of this Agreement, each Shareholder agrees that it will not, directly or indirectly, Transfer any of its Common Shares (i) except as permitted under the Securities Act and other applicable federal, state or foreign securities laws, and then, if requested by the Company, only upon delivery to the Company of an opinion of counsel in form and substance satisfactory to the Company to the effect that such Transfer may be effected without registration under the Securities Act or any applicable foreign securities laws, (ii) if it would cause the Company or any of its Subsidiaries to be required to register as an investment company under the United States Investment Company Act of 1940, as amended, or any comparable foreign law, or (iii) if it would cause the assets of the Company or any of its Subsidiaries to be deemed plan assets as defined under the United States Employee Retirement Income Security Act of 1974 or its accompanying regulations or any comparable foreign law or result in any "prohibited transaction" thereunder involving the Company. In any event, the Board may

refuse the Transfer to any Person if (i) such Transfer would have a material adverse effect on the Company as a result of any regulatory or other restrictions imposed by any Governmental Authority or (ii) any non-de minimis adverse tax consequence to the Company, any Subsidiary of the Company, or any Shareholder or any of their Affiliates would result from such Transfer.

(f) Any Transfer or attempted Transfer of any Common Shares in violation of this Agreement shall be null and void, no such Transfer shall be recorded on the Company's books and the purported transferee in any such Transfer shall not be treated (and the purported transferor shall continue be treated) as the owner of such Common Shares for all purposes of this Agreement.

Section 3.02 Right of First Offer.

(a) At any time following the Lock-up Period, and subject to the terms and conditions specified in this **Section 3.02**, each Initial Shareholder shall have a right of first offer if any other Shareholder (such Shareholder, an "**Offering Shareholder**") proposes to Transfer any Common Shares (the "**Offered Shares**") owned by it to any Third Party Purchaser. Following the Lock-up Period, each time the Offering Shareholder proposes to Transfer any Offered Shares (other than Transfers permitted pursuant to **Section 3.01** and Transfers made pursuant to **Section 3.03**), the Offering Shareholder shall first make an offering of the Offered Shares to the Initial Shareholders (other than itself, as applicable) in accordance with the following provisions of this **Section 3.02**.

(b) The Offering Shareholder shall give written notice (the "**Offering Shareholder Notice**") to the Company and the Initial Shareholders (other than itself, as applicable) stating its bona fide intention to Transfer the Offered Shares and specifying the number of Offered Shares and the material terms and conditions, including the price, pursuant to which the Offering Shareholder proposes to Transfer the Offered Shares. The Offering Shareholder Notice shall constitute the Offering Shareholder's offer to Transfer the Offered Shares to such Initial Shareholders, which offer shall be irrevocable for a period of 20 Business Days (the "**ROFO Notice Period**").

(c) By delivering the Offering Shareholder Notice, the Offering Shareholder represents and warrants to the Company and to each Initial Shareholder receiving such notice that: (i) the Offering Shareholder has full right, title and interest in and to the Offered Shares; (ii) the Offering Shareholder has all the necessary power and authority and has taken all necessary action to Transfer such Offered Shares as contemplated by this **Section 3.02**; and (iii) the Offered Shares are free and clear of any and all Liens other than those arising as a result of or under the terms of this Agreement.

(d) Upon receipt of the Offering Shareholder Notice, each Initial Shareholder receiving such notice shall have until the end of the ROFO Notice Period to elect to purchase any amount of the Offered Shares by delivering a written notice (a “**ROFO Notice**”) to the Offering Shareholder and the Company stating that it agrees to purchase such specified amount of Offered Shares on the terms specified in the Offering Shareholder Notice. Any ROFO Notice shall be binding upon delivery and irrevocable by the applicable Shareholder. Each Initial Shareholder that delivers a ROFO Notice shall be a “**Purchasing Shareholder**.” If the Purchasing Shareholder is the Trident Shareholder, then at the same time as the Trident Shareholder delivers a ROFO Notice to the Company it shall also deliver a copy of such notice to the Dowling Shareholder whereupon the Dowling Shareholder shall be entitled upon written notice to the Offering Shareholder, the Company and the Trident Shareholder within ten (10) Business Days after the end of the ROFO Notice Period (the “**Extended ROFO Notice Period**”) to participate in such right of first offer under this **Section 3.02** as if it were an Initial Shareholder in accordance with and subject to the terms of this **Section 3.02** (and references to the Purchasing Shareholder and the Initial Shareholder for the purposes of this **Section 3.02** shall be construed accordingly). If the Initial Shareholders do not, in the aggregate, elect to purchase all of the Offered Shares by the end of the ROFO Notice Period or the Extended ROFO Notice Period (as the case may be), each Purchasing Shareholder shall then have the right to purchase all or any portion of the remaining Offered Shares not elected to be purchased by the Initial Shareholders. As promptly as practicable following the ROFO Notice Period or the Extended ROFO Notice Period (as the case may be), the Offering Shareholder shall deliver a written notice to each Purchasing Shareholder stating the number of remaining Offered Shares available for purchase. For a period of 10 Business Days following the receipt of such notice, each Purchasing Shareholder shall have the right to elect to purchase all or any portion of the remaining Offered Shares by delivering a subsequent ROFO Notice specifying the number of additional Offered Shares it desires to purchase. Notwithstanding the foregoing, the Initial Shareholders may only exercise their rights under this **Section 3.02** to purchase the Offered Shares if, after giving effect to all elections made under this **Section 3.02(d)**, no less than all of the Offered Shares will be purchased by the Purchasing Shareholders. If the Purchasing Shareholders elect to purchase an amount of Shares that exceeds the amount of Offered Shares, then each Purchasing Shareholder’s right to purchase the Offered Shares shall be limited to an amount equal to the lesser of (x) the aggregate number of Offered Shares the Purchasing Shareholder proposes to buy as stated in the ROFO Notice and (y) the product of the aggregate number of Offered Shares multiplied by a fraction (A) the numerator of which is equal to the number of Common Shares then held by the Purchasing Shareholder and (B) the denominator of which is equal to the number of shares then held by all of the Purchasing Shareholders; provided that if the application of the foregoing formula results in less than all the Offered Shares being allocated to the Purchasing Shareholders, the remaining Offered Shares shall be allocated among the Purchasing Shareholders who received less than the number of Offered Shares they proposed to buy as stated in their

ROFO Notice by successive application of the foregoing formula to the aggregate number of unallocated Offered Shares *mutatis mutandis*, including adjusting clause (x) of the formula as necessary to reflect the number of Offered Shares previously allocated to each such Purchasing Shareholder and the removal from clause (y)(B) of the formula of any Common Shares held by any Purchasing Shareholder previously allocated all of the Offered Shares they proposed to buy as stated in their ROFO Notice.

(e) If an Initial Shareholder does not deliver a ROFO Notice during the ROFO Notice Period or the Dowling Shareholder does not deliver a ROFO Notice during the Extended ROFO Notice Period, then such Initial Shareholder or the Dowling Shareholder (as the case may be) shall be deemed to have waived all of such Shareholder's rights to purchase the Offered Shares under this **Section 3.02**. For the avoidance of doubt, if the Trident Shareholder does not deliver a ROFO Notice during the ROFO Notice Period, then the Dowling Shareholder shall not be entitled to participate in the right of first offer hereunder and shall not be deemed to be a Purchasing Shareholder or an Initial Shareholder for the purposes of this **Section 3.02**.

(f) If no Initial Shareholder delivers a ROFO Notice or if the Purchasing Shareholders elect to purchase less than all of the Offered Shares in accordance with **Section 3.02(d)**, the Offering Shareholder may, during the 180-day period immediately following the expiration of the ROFO Notice Period, which period may be extended for a reasonable time not to exceed 270 days to the extent reasonably necessary to obtain any Government Approvals (the "**Waived ROFO Transfer Period**"), and subject to the provisions of **Section 3.04**, Transfer all of the Offered Shares to a Third Party Purchaser on terms and conditions no more favorable to the Third Party Purchaser than those set forth in the Offering Shareholder Notice. If the Offering Shareholder does not consummate the Transfer of the Offered Shares within the Waived ROFO Transfer Period, the rights provided hereunder shall be deemed to be revived and the Offered Shares shall not be offered to any Person unless first re-offered to the Initial Shareholders (other than itself, as applicable) in accordance with this **Section 3.02**.

(g) Each Shareholder shall take all actions as may be reasonably necessary to consummate any Transfer contemplated by this **Section 3.02**, including entering into agreements and delivering certificates and instruments and consents as may be deemed necessary or appropriate.

(h) At the closing of any Transfer pursuant to this **Section 3.02**, the Offering Shareholder shall deliver to the Purchasing Shareholders the certificate or certificates representing the Offered Shares to be sold (if any), accompanied by stock powers and all necessary stock transfer taxes paid and stamps affixed, if necessary, against receipt of the purchase price therefor from such Purchasing Shareholders by certified or official bank check or by wire transfer of immediately available funds.

Section 3.03 Drag-along Rights

(a) If at any time following the Lock-up Period the Enstar Shareholder (together with its Permitted Transferees) holds no less than 55% of the aggregate number of outstanding Common Shares of the Company held by the Initial Shareholders at such time and receives a bona fide offer from a Third Party Purchaser to consummate, in one transaction, or a series of related transactions, a Change of Control (a “**Drag-along Sale**”), the Enstar Shareholder shall have the right to require that each other Shareholder (each, a “**Drag-along Shareholder**”) participate in such Transfer in the manner set forth in this **Section 3.03**, *provided, however, that no Drag-along Shareholder shall be required to participate in the Drag-along Sale if the consideration for the Drag-along Sale is other than cash or registered securities listed on an established U.S. or foreign securities exchange.* Notwithstanding anything to the contrary in this Agreement, each Drag-along Shareholder shall vote in favor of the transaction and take all actions to waive any dissenters, appraisal or other similar rights.

(b) The Enstar Shareholder shall exercise its rights pursuant to this **Section 3.03** by delivering a written notice (the “**Drag-along Notice**”) to the Company and each Drag-along Shareholder no later than 20 days prior to the closing date of such Drag-along Sale. The Drag-along Notice shall make reference to the Enstar Shareholder’s rights and obligations hereunder and shall describe in reasonable detail:

- (i) the number of Common Shares to be sold by the Enstar Shareholder, if the Drag-along Sale is structured as a Transfer of Common Shares;
- (ii) the identity of the Third Party Purchaser;
- (iii) the proposed date, time and location of the closing of the Drag-along Sale;
- (iv) the per share purchase price and the other material terms and conditions of the Transfer, including a description of any non-cash consideration in sufficient detail to permit the valuation thereof; and
- (v) a copy of any form of agreement proposed to be executed in connection therewith.

(c) If the Drag-along Sale is structured as a Transfer of Common Shares, then, subject to **Section 3.03(d)**, each Drag-along Shareholder shall Transfer the number of shares equal to the product of (x) the number of Common Shares held by such Drag-along Shareholder and (y) a fraction (A) the numerator of which is equal to the number of Common Shares the Enstar Shareholder proposes to sell or transfer in the Drag-along Sale and (B) the denominator of which is equal to the number of Common Shares then held by the Enstar Shareholder.

(d) The consideration to be received by a Drag-along Shareholder shall be the same form and amount of consideration per share of Common Shares to be received by the Enstar Shareholder (or, if the Enstar Shareholder is given an option as to the form and amount of consideration to be received, the same option shall be given) and the terms and conditions of such Transfer shall, except as otherwise provided in the immediately succeeding sentence, be the same as those upon which the Enstar Shareholder Transfers its Common Shares. Each Drag-along Shareholder shall make or provide the same representations, warranties, covenants, indemnities and agreements as the Enstar Shareholder makes or provides in connection with the Drag-along Sale (except that in the case of representations, warranties, covenants, indemnities and agreements pertaining specifically to the Enstar Shareholder, the Drag-along Shareholder shall make the comparable representations, warranties, covenants, indemnities and agreements pertaining specifically to itself); *provided, that* all representations, warranties, covenants and indemnities shall be made by the Enstar Shareholder and each Drag-along Shareholder severally and not jointly and any indemnification obligation shall be pro rata based on the consideration received by the Enstar Shareholder and each Drag-along Shareholder, in each case in an amount not to exceed the aggregate proceeds received by the Enstar Shareholder and each such Drag-along Shareholder in connection with the Drag-along Sale.

(e) The fees and expenses of the Enstar Shareholder incurred in connection with a Drag-along Sale and for the benefit of all Shareholders (it being understood that costs incurred by or on behalf of a Enstar Shareholder for its sole benefit will not be considered to be for the benefit of all Shareholders), to the extent not paid or reimbursed by the Company or the Third Party Purchaser, shall be shared by all the Shareholders on a pro rata basis, based on the aggregate consideration received by each Shareholder; *provided, that* no Shareholder shall be obligated to make or reimburse any out-of-pocket expenditure prior to the consummation of the Drag-along Sale.

(f) Each Shareholder shall take all actions as may be reasonably necessary to consummate the Drag-along Sale, including entering into agreements and delivering certificates and instruments, in each case consistent with the agreements being entered into and the certificates being delivered by the Enstar Shareholder.

(g) The Enstar Shareholder shall have 180 days following the date of the Drag-along Notice in which to consummate the Drag-along Sale, on the terms set forth in the Drag-along Notice (which such 180-day period may be extended for a reasonable time not to exceed 270 days to the extent reasonably necessary to obtain any Government Approvals). If at the end of such period, the Enstar Shareholder has not completed the Drag-along Sale, the Enstar Shareholder may not then effect a transaction subject to this **Section 3.03** without again fully complying with the provisions of this **Section 3.03**.

Section 3.04 Tag-along Rights.

(a) If at any time following the Lock-up Period a Shareholder (the “**Selling Shareholder**”) proposes to Transfer any shares of its Common Shares to a Third Party Purchaser (the “**Proposed Transferee**”) (and if the Selling Shareholder is the Enstar Shareholder and it cannot or has not elected to exercise its drag-along rights set forth in **Section 3.03**), each other Shareholder (each, a “**Tag-along Shareholder**”) shall be permitted to participate in such Transfer (a “**Tag-along Sale**”) on the terms and conditions set forth in this **Section 3.04**.

(b) Prior to the consummation of any such Transfer of Common Shares described in **Section 3.04(a)**, and after satisfying its obligations pursuant to **Section 3.02**, the Selling Shareholder shall deliver to the Company and each other Shareholder a written notice (a “**Sale Notice**”) of the proposed Tag-along Sale subject to this **Section 3.04** no later than 20 Business Days prior to the closing date of the Tag-along Sale. The Sale Notice shall make reference to the Tag-along Shareholders’ rights hereunder and shall describe in reasonable detail:

(i) the aggregate number of Common Shares the Proposed Transferee has offered to purchase.

(ii) the identity of the Proposed Transferee;

(iii) the proposed date, time and location of the closing of the Tag-along Sale;

(iv) the per share purchase price and the other material terms and conditions of the Transfer, including a description of any non-cash consideration in sufficient detail to permit the valuation thereof; and

(v) a copy of any form of agreement proposed to be executed in connection therewith.

(c) Each Tag-along Shareholder shall exercise its right to participate in a Transfer of Common Shares by the Selling Shareholder subject to this **Section 3.04** by delivering to the Selling Shareholder a written notice (a “**Tag-along Notice**”) stating its election to do so and specifying the number of Common Shares to be Transferred by it no later than five Business Days after receipt of the Sale Notice (the “**Tag-along Period**”). The offer of each Tag-along Shareholder set forth in a Tag-along Notice shall be irrevocable, and, to the extent such offer is accepted, such Tag-along Shareholder shall be bound and obligated to Transfer in the proposed Transfer on the terms and conditions set forth in this **Section 3.04**. The Selling Shareholder and each Tag-along Shareholder shall have the right to Transfer in a Transfer subject to this **Section 3.04** the number of Common Shares equal to the product of (x) the aggregate number of Common Shares the Proposed Transferee

proposes to buy as stated in the Sale Notice and (y) a fraction (A) the numerator of which is equal to the number of Common Shares then held by the Selling Shareholder or such Tag-along Shareholder, as the case may be, and (B) the denominator of which is equal to the number of shares then held by the Selling Shareholder and each Tag-along Shareholder.

(d) Each Tag-along Shareholder who does not deliver a Tag-along Notice in compliance with **Section 3.04(c)** above shall be deemed to have waived all of such Tag-along Shareholder's rights to participate in such Transfer, and the Selling Shareholder shall (subject to the rights of any participating Tag-along Shareholder) thereafter be free to Transfer to the Proposed Transferee its Common Shares at a per share price that is no greater than the per share price set forth in the Sale Notice and on other terms and conditions which are not materially more favorable to the Selling Shareholder than those set forth in the Sale Notice without any further obligation to the non-accepting Tag-along Shareholders.

(e) Each Tag-along Shareholder participating in a Transfer pursuant to this **Section 3.04** shall receive the same consideration per share as the Selling Shareholder after deduction of such Tag-along Shareholder's proportionate share of the related expenses in accordance with **Section 3.04(g)** below.

(f) Each Tag-along Shareholder shall make or provide the same representations, warranties, covenants, indemnities and agreements as the Selling Shareholder makes or provides in connection with the Tag-along Sale (except that in the case of representations, warranties, covenants, indemnities and agreements pertaining specifically to the Selling Shareholder, the Tag-along Shareholder shall make the comparable representations, warranties, covenants, indemnities and agreements pertaining specifically to itself); *provided, that* all representations, warranties, covenants and indemnities shall be made by the Selling Shareholder and each Tag-along Shareholder severally and not jointly and any indemnification obligation in respect of breaches of representations and warranties shall be pro rata based on the consideration received by the Selling Shareholder and each Tag-along Shareholder, in each case in an amount not to exceed the aggregate proceeds received by the Selling Shareholder and each Tag-along Shareholder in connection with any Tag-along Sale.

(g) The fees and expenses of the Selling Shareholder incurred in connection with a Tag-along Sale and for the benefit of all Shareholders (it being understood that costs incurred by or on behalf of the Selling Shareholder for its sole benefit will not be considered to be for the benefit of all Shareholders), to the extent not paid or reimbursed by the Company or the Proposed Transferee, shall be shared by all the Shareholders participating in the Tag-along Sale on a pro rata basis, based on the aggregate consideration received by each such Shareholder; *provided, that* no Shareholder shall be obligated to make or reimburse any out-of-pocket expenditure prior to the consummation of the Tag-along Sale.

(h) Each Tag-along Shareholder shall take all actions as may be reasonably necessary to consummate the Tag-along Sale, including entering into agreements and delivering certificates and instruments, in each case consistent with the agreements being entered into and the certificates being delivered by the Selling Shareholder.

(i) The Selling Shareholder shall have 180 days following the expiration of the Tag-along Period in which to Transfer the Common Shares described in the Sale Notice, on the terms set forth in the Sale Notice (which such 180-day period may be extended for a reasonable time not to exceed 270 days to the extent reasonably necessary to obtain any Government Approvals). If at the end of such period, the Selling Shareholder has not completed such Transfer, the Selling Shareholder may not then effect a Transfer of Common Shares subject to this **Section 3.04** without again fully complying with the provisions of this **Section 3.04**.

(j) If the Selling Shareholder Transfers to the Proposed Transferee any of its Common Shares in breach of this **Section 3.04**, then each Tag-along Shareholder shall have the right to Transfer to the Selling Shareholder, and the Selling Shareholder undertakes to purchase from each Tag-along Shareholder, the number of Common Shares that such Tag-along Shareholder would have had the right to Transfer to the Proposed Transferee pursuant to this **Section 3.04**, for a per share amount and form of consideration and upon the terms and conditions on which the Proposed Transferee bought such Common Shares from the Selling Shareholder, but without indemnity being granted by any Tag-along Shareholder to the Selling Shareholder; *provided, that*, nothing contained in this **Section 3.04** shall preclude any Shareholder from seeking alternative remedies against such Selling Shareholder as a result of its breach of this **Section 3.04**.

Section 3.05 Enstar Call Right and Trident Put Right.

(a) At any time during the period beginning on April 1, 2019, and ending on June 30, 2019, or at any time following April 1, 2021, the Enstar Shareholder shall have the right (a “**Call Right**”) by written notice to the other Shareholders to purchase all, but not less than all, of the Common Shares owned by the other Shareholders and their Permitted Transferees.

(b) At any time after April 1, 2021, the Trident Shareholders, acting collectively, shall have the right (the “**Put Right**”) to require the Enstar Shareholder to purchase all, but not less than all, of the Common Shares held by the Trident Shareholders and their Permitted Transferees collectively. In the event that the Trident Shareholders elect to exercise their rights under this **Section 3.05(b)**, then the Trident Shareholders shall give written notice (a “**Put Notice**”) to the Company, the Enstar Shareholder and the other Shareholders stating their bona fide intention to exercise their Put Right over their Common Shares. Upon receipt of the Put Notice, each other Shareholder (other than the Enstar Shareholder or the Trident Shareholders) receiving

such notice shall have 20 Business Days (the “**Put Notice Period**”) to elect to participate in such exercise of the Put Right by the Trident Shareholders by delivering a written notice (a “**Participation Notice**”) to the Company, the Enstar Shareholder and the Trident Shareholders requiring the Enstar Shareholder to purchase all, but not less than all, of the Common Shares held by such Shareholder and its Permitted Transferees. Any Participation Notice shall be binding upon delivery and irrevocable by the applicable Shareholder. Each Shareholder that does not deliver a Participation Notice during the Put Notice Period shall be deemed to have waived all of such Shareholder’s rights to participate in the exercise of the Put Right. By delivering a Participation Notice, the relevant Shareholder represents and warrants to the Company and to the Enstar Shareholder that: (i) it has full right, title and interest in and to the Common Shares which are the subject of the Participation Notice; (ii) it has all the necessary power and authority and has taken all necessary action to Transfer such Common Shares as contemplated by this **Section 3.05(b)**; and (iii) such Common Shares are free and clear of any and all Liens other than those arising as a result of or under the terms of this Agreement.

(c) The purchase price payable by the Enstar Shareholder upon the exercise of the Call Right or the Put Right, as the case may be, shall be equal to fair market value of the Common Shares held by the relevant Shareholder(s) and their Permitted Transferees which are the subject of the Call Right or the Put Right as exercised pursuant to this **Section 3.05** (the “**Relevant Shareholder(s)**”) calculated based on the overall fair market value of the Company determined on a going concern basis as between a willing buyer and willing seller with no discount for illiquidity or a minority interest, as such value may be mutually agreed upon by the Enstar Shareholder and the Trident Shareholder or, if no such agreement is reached, determined in accordance with the procedures set forth below (the “**Fair Market Value**”):

(i) Promptly after determining that the Enstar Shareholder and the Trident Shareholders are unable to agree upon a Fair Market Value but, in any event, no later than 30 Business Days after the exercise of the Call Right or the Put Right, as the case may be, the Enstar Shareholder and the Trident Shareholders shall appoint a mutually acceptable independent appraiser (the “**Independent Appraiser**”) to determine the Fair Market Value (determined on a going concern basis as between a willing buyer and a willing seller with no discount for illiquidity or a minority interest) of the Common Shares held by the Relevant Shareholder(s) and their Permitted Transferees. Each of the Enstar Shareholder and the Trident Shareholders (acting together) shall provide the Independent Appraiser with its respective determination of Fair Market Value, together with the supporting calculations and analyses prepared by such Initial Shareholder with respect thereto. The Enstar Shareholder and the Trident Shareholders shall instruct the Independent Appraiser to determine, in writing within 30 days of such Independent Appraiser’s appointment, which of the Enstar Shareholder’s and the Trident Shareholders’ determination of Fair Market Value is the more reasonable, and such determination shall be final for all purposes of this **Section 3.05**. The costs and expenses of the Independent Appraiser shall be borne equally by the Enstar Shareholder and the Trident Shareholders.

(ii) To enable the Independent Appraiser to conduct the valuation, the Enstar Shareholder, the Relevant Shareholder(s) and the Company shall furnish to the Independent Appraiser such information as the Independent Appraiser may request, including information regarding the business of the Company and its Subsidiaries and the Company's assets, properties, financial condition, earnings and prospects.

(d) Within 90 days after the date of the final determination of the Fair Market Value pursuant to this **Section 3.05** (which period shall be extended solely to the extent needed to obtain any required Government Approvals, *provided, that* the Shareholders shall, and shall cause their Permitted Transferees to, have used their reasonable best efforts to obtain such approvals in a timely manner, and *provided, further, that* in no event shall the Enstar Shareholder be obligated to pay the purchase price for a sale and purchase pursuant to the Put Right in cash due to any failure to obtain any Government Approvals that are required to permit the Relevant Shareholders to acquire or hold any unrestricted ordinary shares of Enstar), the Relevant Shareholders shall, and shall cause their Permitted Transferees to, sell to the Enstar Shareholder, free and clear of any Liens, all of the Common Shares held by them.

(e) Each Shareholder shall take all actions as may be reasonably necessary to consummate the sale contemplated by this **Section 3.05**, including entering into agreements and delivering certificates and instruments and consents as may be deemed necessary or appropriate.

(f) At the closing of any sale and purchase pursuant to this **Section 3.05**, the Relevant Shareholders shall, and shall cause their Permitted Transferees to, deliver to the Enstar Shareholder the certificate or certificates representing their Common Shares (if any), accompanied by stock powers and all necessary stock transfer taxes paid and stamps affixed, if necessary, against receipt of the purchase price therefor from the Enstar Shareholder by, (i) in the case of a sale and purchase pursuant to the Call Right, wire transfer of immediately available funds, or (ii) in the case of a sale and purchase pursuant to the Put Right, at the option of the Enstar Shareholder, either (A) wire transfer of immediately available funds, (B) unrestricted ordinary shares of Enstar (provided that such ordinary shares are then listed or admitted to trading on the NASDAQ Stock Market, the New York Stock Exchange or another national securities exchange), or (C) a combination of (A) and (B). If the purchase price at the closing of any sale and purchase pursuant to this **Section 3.05** consists of unrestricted ordinary shares of Enstar, the value of such ordinary shares will be deemed to equal the average of the last reported sale price of the ordinary shares over the 10 trading day period ending on, and including, the trading day immediately preceding the effective date of any such closing.

(g) Enstar hereby absolutely, unconditionally and irrevocably guarantees to each of the Shareholders (other than the Enstar Shareholder) and their Permitted Transferees, on the terms and conditions set forth herein, the due and punctual payment, observance, performance and discharge of the Enstar Shareholder's obligations under this **Section 3.05**. Each of the Shareholders hereby agrees that in no event shall Enstar be required to pay any amount to the Shareholders or their Permitted Transferees under, in respect of, or in connection with this Agreement other than as expressly set forth herein.

ARTICLE IV **PRE-EMPTIVE RIGHTS AND OTHER AGREEMENTS**

Section 4.01 Pre-emptive Right.

(a) The Company hereby grants to each Initial Shareholder and the Dowling Shareholder (each, a "**Pre-emptive Shareholder**") the right to purchase its pro rata portion of any new Common Shares (other than any Excluded Securities) (the "**New Securities**") that the Company may from time to time propose to issue or sell to any Person.

(b) The Company shall give written notice (an "**Issuance Notice**") of any proposed issuance described in subsection (a) above to the Pre-emptive Shareholders within five Business Days following any meeting of the Board at which any such issuance or sale is approved. The Issuance Notice shall set forth the material terms and conditions of the proposed issuance, including:

- (i) the number of New Securities proposed to be issued and the percentage of the Company's outstanding Common Shares, on a fully diluted basis, that such issuance would represent;
- (ii) the proposed issuance date, which shall be at least 20 Business Days from the date of the Issuance Notice; and
- (iii) the proposed purchase price per share.

(c) Each Pre-emptive Shareholder shall for a period of 15 Business Days following the receipt of an Issuance Notice (the "**Exercise Period**") have the right to elect irrevocably to purchase, at the purchase price set forth in the Issuance Notice, up to the amount of New Securities equal to the product of (x) the total number of New Securities to be issued by the Company on the issuance date and (y) a fraction determined by dividing (A) the number of Common Shares owned by such Pre-emptive Shareholder immediately prior to such issuance by (B) the total number of Common Shares owned by all Initial Shareholders on such date immediately prior to such issuance (the "**Pre-emptive Pro Rata Portion**") by delivering a written notice to the Company. Such Pre-emptive Shareholder's election to purchase New Securities shall be binding and irrevocable.

(d) No later than five Business Days following the expiration of the Exercise Period, the Company shall notify each Pre-emptive Shareholder in writing of the number of New Securities that each Pre-emptive Shareholder has agreed to purchase (including, for the avoidance of doubt, where such number is zero) (the “**Over-allotment Notice**”). Each Pre-emptive Shareholder exercising its right to purchase its Pre-emptive Pro Rata Portion of the New Securities in full (an “**Exercising Shareholder**”) shall have a right of over-allotment such that if any other Pre-emptive Shareholder fails to exercise its right under this **Section 4.01** to purchase its Pre-emptive Pro Rata Portion of the New Securities (each, a “**Non-Exercising Shareholder**”), such Exercising Shareholder may purchase all or any portion of such Non-Exercising Shareholder’s allotment (the “**Over-allotment New Securities**”) by giving written notice to the Company (within five Business Days of receipt of the Over-allotment Notice) setting forth the number of Over-allotment New Securities that such Exercising Shareholder is willing to purchase (the “**Over-allotment Exercise Period**”). Such Exercising Shareholder’s election to purchase Over-allotment New Securities shall be binding and irrevocable. If more than one Exercising Shareholder elects to exercise its right of over-allotment, each Exercising Shareholder shall have the right to purchase the number of Over-allotment New Securities it elected to purchase in its written notice; *provided, that* if the over-allotment New Securities are over-subscribed, each Exercising Shareholder shall purchase its pro rata portion of the available Over-allotment New Securities based upon the relative Pre-emptive Pro Rata Portions of the Exercising Shareholders.

(e) The Company shall be free to complete the proposed issuance or sale of New Securities described in the Issuance Notice with respect to any New Securities not elected to be purchased pursuant to **Section 4.01(c)** and **Section 4.01(d)** above in accordance with the terms and conditions set forth in the Issuance Notice (except that the amount of New Securities to be issued or sold by the Company may be reduced) so long as such issuance or sale is closed within 180 days after the expiration of the Over-allotment Exercise Period (subject to the extension of such 180-day period for a reasonable time not to exceed 270 days to the extent reasonably necessary to obtain any Government Approvals). In the event the Company has not sold such New Securities within such time period, the Company shall not thereafter issue or sell any New Securities without first again offering such securities to the Shareholders in accordance with the procedures set forth in this **Section 4.01**.

(f) Upon the consummation of the issuance of any New Securities in accordance with this **Section 4.01**, the Company shall deliver to each Exercising Shareholder certificates (if any) evidencing the New Securities, which New Securities shall be issued free and clear of any Liens (other than those arising hereunder or under Applicable Law and those attributable to the actions of the purchasers thereof), and the Company shall so represent and warrant to the purchasers thereof, and further represent and warrant to such purchasers that such New Securities shall be, upon issuance thereof to the Exercising Shareholders and after payment therefor, duly authorized and validly

issued. Each Exercising Shareholder shall deliver to the Company the purchase price for the New Securities purchased by it by wire transfer of immediately available funds. Each party to the purchase and sale of New Securities shall take all such other actions as may be reasonably necessary to consummate the purchase and sale including entering into such additional agreements as may be necessary or appropriate.

Section 4.02 Corporate Opportunities. Notwithstanding anything contained in this Agreement or under Applicable Law to the contrary (to the full extent permitted by Applicable Law), (i) the Initial Shareholders, the Dowling Shareholder and their respective Affiliates (A) may engage in or possess an interest in other business ventures of any nature and description (whether similar or dissimilar to the business of the Company or any of its Subsidiaries), independently or with others, and none of the Company, any Subsidiary, any other Shareholder, and each of their respective Affiliates shall have any right by virtue of this Agreement in or to any such investment or interest of the Enstar Shareholder, the Trident Shareholders, the Dowling Shareholder, any Enstar Director or any Trident Director and any of its or their respective Affiliates to any income or profits derived therefrom, and the pursuit of any such venture shall not be deemed wrongful or improper, and (B) shall not be obligated to present any investment opportunity to the Company or any Subsidiary even if such opportunity is of a character that, if presented to the Company or any Subsidiary, could be taken by the Company or such Subsidiary, and (ii) the parties hereby waive (and the Company shall cause the Subsidiaries to waive) to the fullest extent permitted by law any fiduciary or other duty of the Initial Shareholders, the Dowling Shareholder and the Enstar Directors and Trident Directors not expressly set forth in this Agreement, including fiduciary or other duties that may be related to or associated with self-dealing, corporate opportunities or otherwise, in each case so long as such Person acts in a manner consistent with this Agreement.

Section 4.03 Confidentiality.

(a) Each Shareholder shall and shall cause its Representatives to, keep confidential and not divulge any information (including all budgets, business plans and analyses) concerning the Company, including its assets, business, operations, financial condition or prospects ("Information"), and to use, and cause its Representatives to use, such Information only in connection with the operation of the Company; *provided, that* nothing herein shall prevent any Shareholder from disclosing such Information (i) upon the order of any court or administrative agency, (ii) upon the request or demand of any regulatory agency or authority having jurisdiction over such Shareholder, (iii) to the extent compelled by legal process or required or requested pursuant to subpoena, interrogatories or other discovery requests, (iv) to the extent necessary in connection with the exercise of any remedy hereunder, (v) to other Shareholders, (vi) to such Shareholder's Representatives that in the reasonable judgment of such Shareholder need to know such Information or (vii) to any potential Permitted Transferee in connection

with a proposed Transfer of Common Shares from such Shareholder as long as such transferee agrees to be bound by the provisions of this **Section 4.03** as if a Shareholder, *provided, further, that* in the case of clause (i), (ii) or (iii), such Shareholder shall notify the other Shareholders of the proposed disclosure as far in advance of such disclosure as practicable and use reasonable efforts to ensure that any Information so disclosed is accorded confidential treatment, when and if available.

(b) The restrictions of **Section 4.03(a)** shall not apply to information that (i) is or becomes generally available to the public other than as a result of a disclosure by a Shareholder or any of its Representatives in violation of this Agreement; (ii) is or becomes available to a Shareholder or any of its Representatives on a non-confidential basis prior to its disclosure to the receiving Shareholder and any of its Representatives, (iii) is or has been independently developed or conceived by such Shareholder without use of the Company's Information or (iv) becomes available to the receiving Shareholder or any of its Representatives on a non-confidential basis from a source other than the Company, any other Shareholder or any of their respective Representatives, *provided, that* such source is not known by the recipient of the information to be bound by a confidentiality agreement with the disclosing Shareholder or any of its Representatives. Furthermore, **Section 4.03(a)** shall not restrict the Enstar Shareholder and its Affiliates from disclosing any Information required to be disclosed under applicable securities laws or the rules of any stock exchange upon which their securities are traded.

Section 4.04 Registration Rights. Upon the request of any Initial Shareholder or the Dowling Shareholder in connection with a contemplated public offering of the equity of the Company or any of its Subsidiaries that is approved in accordance with **Section 2.02(g)**, the Company shall enter into a registration rights agreement with the Initial Shareholders or the Dowling Shareholder containing customary provisions for a transaction of that type, including (a) in the case of an Initial Shareholder, demand registration rights and piggyback registration rights and (b) in the case of the Dowling Shareholder, including piggyback registration rights but excluding demand registration rights, in each case with ratable cutbacks, if necessary, regardless of the demanding party or piggyback party.

ARTICLE V INFORMATION RIGHTS

Section 5.01 Financial Statements and Reports. In addition to, and without limiting any rights that a Shareholder may have with respect to inspection of the books and records of the Company under Applicable Laws, the Company shall furnish to each Shareholder:

(a) Within 45 days after the end of each quarterly accounting period, an unaudited consolidated balance sheet as of the end of such quarterly accounting period and an unaudited related consolidated income statement, consolidated statement of

shareholders' equity and consolidated statement of cash flows for such quarterly accounting period including any footnotes thereto (if any) prepared in accordance with GAAP, consistently applied, together with comparable year-to-date figures;

(b) Within 90 days after the end of each Fiscal Year (or such longer period of time as is approved by the Board), an unaudited consolidated balance sheet as of the end of such Fiscal Year and the related consolidated income statement, consolidated statement of shareholders' equity, and consolidated statement of cash flows including all footnotes thereto for such Fiscal Year prepared in accordance with GAAP, consistently applied; and

(c) Such other financial, accounting or other information relating to the Company and its Subsidiaries or their respective operations as any Initial Shareholder may reasonably request from time to time in form and substance reasonably acceptable to such requesting Shareholder.

Section 5.02 Inspection Rights.

(a) The Company shall, and shall cause its officers, Directors and employees to, (i) afford each Shareholder that, together with any Affiliates and/or Permitted Transferees, owns at least 5% of the Company's outstanding Common Shares and the Representatives of each such Shareholder, during normal business hours and upon reasonable notice, reasonable access at all reasonable times to its officers, employees, auditors, properties, offices, plants and other facilities and to all books and records, and (ii) afford such Shareholder the opportunity to consult with its officers from time to time regarding the Company's affairs, finances and accounts as each such Shareholder may reasonably request upon reasonable notice.

(b) The right set forth in **Section 5.02(a)** above shall not and is not intended to limit any rights which the Shareholders may have with respect to the books and records of the Company, or to inspect its properties or discuss its affairs, finances and accounts under the laws of the jurisdiction in which the Company is incorporated.

(c) In the event that the Trident Shareholder elects to exercise its rights under Section 5.02(a) it shall be entitled but not obliged to invite the Dowling Shareholder to participate with it for the purposes of such exercise of its rights.

ARTICLE VI
REPRESENTATIONS AND WARRANTIES

Section 6.01 Representations and Warranties. Each Shareholder, severally and not jointly, represents and warrants to the Company and each other Shareholder that:

(a) Such Shareholder (if an entity) is a corporation, company, partnership or limited liability company duly organized or formed, validly existing and in good standing under the laws of its jurisdiction of organization.

(b) Such Shareholder (if an entity) has full corporate, company or partnership power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement, the performance of its obligations hereunder and the consummation of the transactions contemplated hereby have been duly authorized (if such Shareholder is an entity) by all requisite corporate or company action of such Shareholder. Such Shareholder has duly executed and delivered this Agreement.

(c) This Agreement constitutes the legal, valid and binding obligation of such Shareholder, enforceable against such Shareholder in accordance with its terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law). The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, require no action by or in respect of, or filing with, any Governmental Authority.

(d) The execution, delivery and performance by such Shareholder of this Agreement and the consummation of the transactions contemplated hereby do not (i) conflict with or result in any violation or breach of any provision of any of the organizational documents of such Shareholder (if an entity), (ii) conflict with or result in any violation or breach of any provision of any Applicable Law or (iii) require any consent or other action by any Person under any provision of any material agreement or other instrument to which the Shareholder is a party.

(e) Except for this Agreement, the Investors Agreement by and among the Initial Shareholders, dated as of July 8, 2013 (the “**Investors Agreement**”), the Commitment Letter of each Initial Shareholder to purchase Common Shares, each dated as of July 8, 2013 (the “**Commitment Letters**”), and the Share Purchase Agreement dated as of May 8th, 2014 by and among the Company, the Initial Shareholders and the Dowling Shareholder (the “**Share Purchase Agreement**”), such Shareholder has not entered into or agreed to be bound by any other agreements or arrangements of any kind with any other party with respect to the Common Shares, including agreements or arrangements with respect to the acquisition or disposition of the Common Shares or any interest therein or the voting of the Common Shares (whether or not such agreements and arrangements are with the Company or any other Person).

ARTICLE VII **TERM AND TERMINATION**

Section 7.01 Termination. This Agreement shall terminate upon the earliest of:

- (a) the consummation of an Initial Public Offering;

(b) the consummation of a merger or other business combination involving the Company whereby the Common Shares becomes a security that is listed or admitted to trading on the NASDAQ Stock Market, the New York Stock Exchange or another national securities exchange;

- (c) the date on which no more than one Shareholder holds any Common Shares;
- (d) the dissolution, liquidation or winding up of the Company; or
- (e) upon the unanimous agreement of the Shareholders.

Section 7.02 Effect of Termination.

(a) The termination of this Agreement shall terminate all further rights and obligations of the Shareholders under this Agreement except that such termination shall not effect:

- (i) the existence of the Company;
- (ii) the obligation of any Party to pay any amounts arising on or prior to the date of termination, or as a result of or in connection with such termination;
- (iii) the rights which any Shareholder may have by operation of law as a shareholder of the Company; or
- (iv) the rights contained herein which by their terms are intended to survive termination of this Agreement.

(b) The following provisions shall survive the termination of this Agreement: this **Section 7.02** and **Section 4.03, Section 8.03, Section 8.11, Section 8.12** and **Section 8.13**.

ARTICLE VIII
MISCELLANEOUS

Section 8.01 Expenses. Except as otherwise expressly provided herein or in the Investors Agreement, all costs and expenses, including fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses.

Section 8.02 Release of Liability. In the event any Shareholder shall Transfer all of the Common Shares held by such Shareholder in compliance with the provisions of this Agreement without retaining any interest therein, then such Shareholder shall cease to be a party to this Agreement and shall be relieved and have no further liability arising hereunder for events occurring from and after the date of such Transfer.

Section 8.03 Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt), (b) when received by the addressee if sent by an internationally recognized overnight courier (receipt requested), (c) on the date sent by facsimile or email of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this **Section 8.03**):

If to the Company:
c/o Enstar Group Limited
PO Box 2267
Windsor Place, 3rd Floor, 22 Queen Street
Hamilton HM JX Bermuda
Facsimile: (441) 296-7319
Email: richard.harris@enstargroup.bm
Attention: Richard J. Harris, Chief Financial Officer

If to the Enstar Shareholder:
c/o Enstar Group Limited
PO Box 2267
Windsor Place, 3rd Floor, 22 Queen Street
Hamilton HM JX Bermuda
Facsimile: (441) 296-7319
Email: richard.harris@enstargroup.bm
Attention: Richard J. Harris, Chief Financial Officer

with a copy to (which shall not constitute notice):
Drinker Biddle & Reath LLP
One Logan Square, Suite 2000
Philadelphia, PA 19103
Facsimile: (215) 988-2757
Email: robert.juelke@dbr.com
Attention: Robert C. Juelke

If to the Trident Shareholders:
c/o Stone Point Capital LLC
20 Horseneck Lane
Greenwich, CT 06830
Facsimile: (203) 862-2929
Email: slevey@stonepoint.com
Attention: Stephen Levey

with a copy to (which shall not constitute notice):

c/o Stone Point Capital LLC
20 Horseneck Lane
Greenwich, CT 06830
Facsimile: (203) 625-8357
Email: contracts@stonepoint.com
Attention: General Counsel

If to the Dowling Shareholder:

c/o Dowling Capital Partners
190 Farmington Avenue
Farmington, CT 06032
Facsimile: 888-502-8715
Email: justin@dowlingcapitalpartners.com
Attention: Justin Faust

Section 8.04 Interpretation. For purposes of this Agreement, (a) the words “include,” “includes” and “including” shall be deemed to be followed by the words “without limitation;” (b) the word “or” is not exclusive; and (c) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Agreement as a whole. The definitions given for any defined terms in this Agreement shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. Unless the context otherwise requires, references herein: (x) to Articles, Sections, and Exhibits mean the Articles and Sections of, and Exhibits attached to, this Agreement; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The Exhibits referred to herein shall be construed with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

Section 8.05 Headings. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

Section 8.06 Severability. If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto

shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

Section 8.07 Entire Agreement. This Agreement, the Organizational Documents, the Investors Agreement, the Commitment Letters and the Share Purchase Agreement constitute the sole and entire agreement of the parties with respect to the subject matter contained herein and therein, and supersede all prior and contemporaneous understandings and agreements, both written and oral, with respect to such subject matter. In the event of any inconsistency or conflict between this Agreement and any Organizational Document, the Shareholders and the Company shall, to the extent permitted by Applicable Law, amend such Organizational Document to comply with the terms of this Agreement.

Section 8.08 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 8.09 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties hereto and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 8.10 Amendment and Modification; Waiver. This Agreement may only be amended, modified or supplemented by an agreement in writing signed by each Initial Shareholder; *provided, that* any amendment that would materially and adversely affect the rights or duties of a Shareholder shall require the consent of such Shareholder. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

Section 8.11 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to any choice or conflict of law provision or rule (whether of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than those of New York.

Section 8.12 Submission to Jurisdiction; Waiver of Jury Trial.

(a) ANY LEGAL SUIT, ACTION OR PROCEEDING ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY MAY BE INSTITUTED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK IN EACH CASE LOCATED IN THE CITY OF NEW YORK AND COUNTY OF NEW YORK, AND EACH PARTY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH SUIT, ACTION OR PROCEEDING. SERVICE OF PROCESS, SUMMONS, NOTICE OR OTHER DOCUMENT BY MAIL TO SUCH PARTY'S ADDRESS SET FORTH HEREIN SHALL BE EFFECTIVE SERVICE OF PROCESS FOR ANY SUIT, ACTION OR OTHER PROCEEDING BROUGHT IN ANY SUCH COURT. THE PARTIES IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY OBJECTION TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR ANY PROCEEDING IN SUCH COURTS AND IRREVOCABLY WAIVE AND AGREE NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT (I) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION, (II) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (III) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (IV) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 8.12(b).

Section 8.13 Equitable Remedies. Each party hereto acknowledges that the other parties hereto would be irreparably damaged in the event of a breach or threatened breach by such party of any of its obligations under this Agreement and hereby agrees that in the event of a breach or a threatened breach by such party of any such obligations, each of the other parties hereto shall, in addition to any and all other rights and remedies that may be available to them in respect of such breach, be entitled to an injunction from a court of competent jurisdiction (without any requirement to post bond) granting such parties specific performance by such party of its obligations under this Agreement.

Section 8.14 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, email or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

Bayshore Holdings Limited

By: /s/ Richard Harris
Name: Richard Harris
Title: Director

Kenmare Holdings Ltd

By: /s/ Richard Harris
Name: Richard Harris
Title: Director

Enstar Group Limited
(solely for purposes of Section 3.05)

By: /s/ Richard Harris
Name: Richard Harris
Title: CFO

Trident V, L.P.

By: Stone Point Capital LLC, its manager

By: /s/ Stephen A. Levey

Name: Stephen A. Levey

Title: Principal and Counsel

Trident V Parallel Fund, L.P.

By: Stone Point Capital LLC, its manager

By: /s/ Stephen A. Levey

Name: Stephen A. Levey

Title: Principal and Counsel

Trident V Professionals Fund, L.P.

By: Stone Point Capital LLC, its manager

By: /s/ Stephen A. Levey

Name: Stephen A. Levey

Title: Principal and Counsel

Dowling Capital Partners I, L.P.

By: Dowling Capital I, LLC, its general partner

By: Dowling Capital SLP I, LLC, its sole member

By: /s/ David K. Zwiener

Name: David K. Zwiener

Title: Managing Director

EXHIBIT A
Joinder Agreement

Reference is hereby made to the Amended and Restated Shareholders' Agreement, dated as May 8th, 2014 (as amended from time to time, the "Shareholders' Agreement"), by and among Kenmare Holdings Ltd, Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P., Dowling Capital Partners I, L.P., Bayshore Holdings Limited, a Bermuda exempted company (the "Company"), and, solely for purposes of Section 3.05 thereof, Enstar Group Limited. Pursuant to and in accordance with Section 3.01(d) of the Shareholders' Agreement, the undersigned hereby agrees that upon the execution of this Joinder Agreement, it shall become a party to the Shareholders' Agreement and shall be fully bound by, and subject to, all of the covenants, terms and conditions of the Shareholders' Agreement as though an original party thereto and shall be deemed to be a Shareholder of the Company for all purposes thereof.

Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Shareholders' Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of [DATE].

Bayshore Holdings Limited

By: _____
Name: _____
Title: _____

[Transferee Shareholder]

By: _____
Name: _____
Title: _____

AMENDED AND RESTATED

SHAREHOLDERS' AGREEMENT

between

NORTHSORE HOLDINGS LIMITED

and

THE SHAREHOLDERS NAMED HEREIN

dated as of

May 8th, 2014

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AMENDED AND RESTATED SHAREHOLDERS' AGREEMENT

This Amended and Restated Shareholders' Agreement (this "Agreement"), dated as of May 8th, 2014, is entered into among Northshore Holdings Limited, a Bermuda exempted company (the "Company"), Kenmare Holdings Ltd (the "Enstar Shareholder"), Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P. (each, a "Trident Shareholder" and, collectively, the "Trident Shareholders" and, together with the Enstar Shareholder, the "Initial Shareholders"), Dowling Capital Partners I, L.P. (the "Dowling Shareholder"), each other Person who after the date hereof acquires Common Shares of the Company and becomes a party to this Agreement by executing a Joinder Agreement (such Persons, collectively with the Initial Shareholders and the Dowling Shareholder, the "Shareholders") and, solely for purposes of **Section 3.05** hereof, Enstar Group Limited ("Enstar").

RECITALS

WHEREAS, immediately prior to the date hereof, the Enstar Shareholder owned 60% of the issued and outstanding Common Shares of the Company and the Trident Shareholders collectively owned 40% of the issued and outstanding Common Shares of the Company;

WHEREAS, on the date hereof, the Dowling Shareholder will acquire 4,493 Common Shares of the Company from the Initial Shareholders; and

WHEREAS, the Initial Shareholders, the Dowling Shareholder and the other parties hereto deem it in their best interests and in the best interests of the Company to amend and restate the Shareholders' Agreement entered into on September 6, 2013, by and among the Company, the Initial Shareholders and Enstar, and to set forth in this Agreement their respective rights and obligations in connection with their investment in the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I DEFINITIONS

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in this Article I.

"Affiliate" means with respect to any Person, any other Person who, directly or indirectly (including through one or more intermediaries), controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control," when

used with respect to any specified Person, shall mean the power, direct or indirect, to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or partnership or other ownership interests, by contract or otherwise; and the terms “controlling” and “controlled” shall have correlative meanings.

“**Agreement**” has the meaning set forth in the preamble.

“**Applicable Law**” means all applicable provisions of (a) constitutions, treaties, statutes, laws (including the common law), rules, regulations, decrees, ordinances, codes, proclamations, declarations or orders of any Governmental Authority, (b) any consents or approvals of any Governmental Authority and (c) any orders, decisions, advisory or interpretative opinions, injunctions, judgments, awards, decrees of, or agreements with, any Governmental Authority.

“**Arden Re**” means Arden Reinsurance Company Limited.

“**Atrium**” means Atrium Underwriting Group Limited.

“**Board**” has the meaning set forth in **Section 2.01(a)**.

“**Business Day**” means a day other than a Saturday, Sunday or other day on which commercial banks in Bermuda are authorized or required to close.

“**Bye-laws**” means the bye-laws of the Company, as amended, modified, supplemented or restated from time to time in accordance with the terms of this Agreement.

“**Call Right**” has the meaning set forth in **Section 3.05(a)**.

“**Change of Control**” means any transaction or series of related transactions (as a result of a tender offer, merger, consolidation or otherwise) that results in, or that is in connection with, (a) any Third Party Purchaser or “group” (within the meaning of Section 13(d)(3) of the Exchange Act) of Third Party Purchasers acquiring beneficial ownership, directly or indirectly, of all or substantially all of the then issued and outstanding Common Shares or (b) the sale, lease, exchange, conveyance, transfer or other disposition (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of the Company and its Subsidiaries, on a consolidated basis, to any Third Party Purchaser or “group” (within the meaning of Section 13(d)(3) of the Exchange Act) of Third Party Purchasers (including any liquidation, dissolution or winding up of the affairs of the Company, or any other distribution made, in connection therewith).

“**Commitment Letters**” has the meaning set forth in **Section 6.01(e)**.

“Common Shares” means the common shares, par value \$1.00 per share, of the Company and any securities issued in respect thereof, or in substitution therefor, in connection with any stock split, dividend or combination, or any reclassification, recapitalization, merger, consolidation, exchange or similar reorganization.

“**Company**” has the meaning set forth in the preamble.

“**Director**” has the meaning set forth in **Section 2.01(a)**.

“**Dowling Shareholder**” has the meaning set forth in the preamble and shall also include any Permitted Transferees of the Dowling Shareholder that become Shareholders pursuant to the terms of this Agreement.

“**Drag-along Notice**” has the meaning set forth in **Section 3.03(b)**.

“**Drag-along Sale**” has the meaning set forth in **Section 3.03(a)**.

“**Drag-along Shareholder**” has the meaning set forth in **Section 3.03(a)**.

“**Enstar**” has the meaning set forth in the preamble.

“**Enstar Director**” has the meaning set forth in **Section 2.01(a)**.

“**Enstar Shareholder**” has the meaning set forth in the preamble and shall also include any Permitted Transferees of the Enstar Shareholder that become Shareholders pursuant to the terms of this Agreement.

“**Exchange Act**” means the United States Securities Exchange Act of 1934, as amended, or any successor federal statute, and the rules and regulations thereunder, which shall be in effect at the time.

“**Excluded Securities**” means any Common Shares or other equity securities issued in connection with (a) a grant to any existing or prospective consultants, employees, officers or Directors pursuant to any stock option, employee stock purchase or similar equity-based plans or other compensation agreement; (b) the exercise or conversion of options to purchase Common Shares, or Common Shares issued to any existing or prospective consultants, employees, officers or Directors pursuant to any stock option, employee stock purchase or similar equity-based plans or any other compensation agreement; (c) any acquisition by the Company of the stock, assets, properties or business of any Person; (d) any merger, consolidation or other business combination involving the Company; (e) the commencement of any Initial Public Offering or any transaction or series of related transactions involving a Change of Control; (f) a stock split, stock dividend or any similar recapitalization; or (g) any issuance of Financing Equity.

“**Exercise Period**” has the meaning set forth in **Section 4.01(c)**.

“**Exercising Shareholder**” has the meaning set forth in **Section 4.01(d)**.

“Extended ROFO Notice Period” has the meaning set forth in **Section 3.02(d)**.

“Fair Market Value” has the meaning set forth in **Section 3.05(c)**.

“Financing Equity” means any Common Shares, warrants or other similar rights to purchase Common Shares issued to lenders or other institutional investors (excluding the Shareholders) in any arm’s length transaction providing debt financing to the Company.

“Fiscal Year” means for financial accounting purposes, January 1 to December 31.

“GAAP” means United States generally accepted accounting principles in effect from time to time.

“Government Approval” means any authorization, consent, approval, waiver, exception, variance, order, exemption, publication, filing, declaration, concession, grant, franchise, agreement, permission, permit, or license of, from or with any Governmental Authority, the giving notice to, or registration with, any Governmental Authority or any other action in respect of any Governmental Authority.

“Governmental Authority” means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

“Independent Appraiser” has the meaning set forth in **Section 3.05(c)(i)**.

“Information” has the meaning set forth in **Section 4.03(b)**.

“Initial Public Offering” means any offering of Common Shares of the Company, or shares or other equity interests of any Material Subsidiary, pursuant to a registration statement filed in accordance with the Securities Act.

“Initial Shareholders” has the meaning set forth in the preamble and shall also include any Permitted Transferees of the Enstar Shareholder and the Trident Shareholders that become Shareholders, but shall not include the Dowling Shareholder.

“Investors Agreement” has the meaning set forth in **Section 6.01(e)**.

“Issuance Notice” has the meaning set forth in **Section 4.01(b)**.

“Joinder Agreement” means the joinder agreement in form and substance of Exhibit A attached hereto.

“Lien” means any lien, claim, charge, mortgage, pledge, security interest, option, preferential arrangement, right of first offer, encumbrance or other restriction or limitation of any nature whatsoever.

“Lock-up Period” has the meaning set forth in **Section 3.01(a)**.

“Material Subsidiary” means Arden Re, Atrium and any other material direct or indirect Subsidiary of the Company.

“Memorandum of Association” means the memorandum of association of the Company, as filed on August 14, 2009 with the Registrar of Companies of Bermuda and as amended, modified, supplemented or restated from time to time in accordance with the terms of this Agreement.

“New Securities” has the meaning set forth in **Section 4.01(a)**.

“Non-exercising Shareholder” has the meaning set forth in **Section 4.01(d)**.

“Offered Shares” has the meaning set forth in **Section 3.02(a)**.

“Offering Shareholder” has the meaning set forth in **Section 3.02(a)**.

“Offering Shareholder Notice” has the meaning set forth in **Section 3.02(b)**.

“Organizational Documents” means the Bye-laws and the Memorandum of Association.

“Over-allotment Exercise Period” has the meaning set forth in **Section 4.01(d)**.

“Over-allotment New Securities” has the meaning set forth in **Section 4.01(d)**.

“Over-allotment Notice” has the meaning set forth in **Section 4.01(d)**.

“Participation Notice” has the meaning set forth in **Section 3.05(b)**.

“Permitted Transferee” means with respect to any Shareholder, any Affiliate of such Shareholder.

“Person” means an individual, corporation, company, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association or other entity.

“Pre-emptive Pro Rata Portion” has the meaning set forth in **Section 4.01(c)**.

“Pre-emptive Shareholder” has the meaning set forth in **Section 4.01(a)**.

“Proposed Transferee” has the meaning set forth in **Section 3.04(a)**.

“Purchasing Shareholder” has the meaning set forth in **Section 3.02(d)**.

“Put Notice” has the meaning set forth in **Section 3.05(b)**.

“Put Notice Period” has the meaning set forth in **Section 3.05(b)**.

“Put Right” has the meaning set forth in **Section 3.05(a)**.

“Related Party Agreement” means any agreement, arrangement or understanding between (a) (i) the Company and (ii) any Shareholder or any Affiliate of a Shareholder or any Director, officer or employee of the Company, as such agreement may be amended, modified, supplemented or restated in accordance with the terms of this Agreement, and (b) (i) Arden Re, Atrium or any other direct or indirect Subsidiary of the Company and (ii) the Company, any Shareholder or any Affiliate of Arden Re, Atrium, the Company, a Shareholder or any Director, officer or employee of Arden Re, Atrium or any direct or indirect Subsidiary of the Company, as such agreement may be amended, modified, supplemented or restated in accordance with the terms of this Agreement.

“Relevant Shareholder(s)” has the meaning set forth in **Section 3.05(c)**.

“Representative” means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants and other agents of such Person and its Affiliates (*provided, that* portfolio companies of the Trident Shareholders shall not be Representatives).

“ROFO Notice” has the meaning set forth in **Section 3.02(d)**.

“ROFO Notice Period” has the meaning set forth in **Section 3.02(b)**.

“Sale Notice” has the meaning set forth in **Section 3.04(b)**.

“Securities Act” means the United States Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations thereunder, which shall be in effect at the time.

“Selling Shareholder” has the meaning set forth in **Section 3.04(a)**.

“Share Purchase Agreement” has the meaning set forth in **Section 6.01(e)**.

“Shareholders” has the meaning set forth in the preamble.

“Subsidiary” means with respect to any Person, any other Person of which a majority of the outstanding shares or other equity interests having the power to vote for directors or comparable managers are owned, directly or indirectly, by the first Person.

“Tag-along Notice” has the meaning set forth in **Section 3.04(c)**.

“Tag-along Period” has the meaning set forth in **Section 3.04(c)**.

“Tag-along Sale” has the meaning set forth in **Section 3.04(a)**.

“Tag-along Shareholder” has the meaning set forth in **Section 3.04(a)**.

“Third Party Purchaser” means any Person who, immediately prior to the contemplated transaction, (a) does not directly or indirectly own or have the right to acquire any outstanding Common Shares or (b) is not a Permitted Transferee of any Person who directly or indirectly owns or has the right to acquire any Common Shares.

“Transfer” means to, directly or indirectly, sell, transfer, assign, pledge, encumber, hypothecate or similarly dispose of, either voluntarily or involuntarily, or to enter into any contract, option or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation or similar disposition of, any Common Shares owned by a Person or any interest (including a beneficial interest) in any Common Shares owned by a Person.

“Trident Director” has the meaning set forth in **Section 2.01(a)**.

“Trident Shareholder” has the meaning set forth in the preamble and shall also include any Permitted Transferees of the Trident Shareholder that become Shareholders pursuant to the terms of this Agreement.

“Waived ROFO Transfer Period” has the meaning set forth in **Section 3.02(f)**.

ARTICLE II **MANAGEMENT AND OPERATION OF THE COMPANY**

Section 2.01 Board of Directors.

(a) The Shareholders agree that the business and affairs of the Company shall be managed through a board of directors (the “**Board**”) consisting of five members (each, a “**Director**”). The Directors shall be elected to the Board in accordance with the following procedures:

(i) The Enstar Shareholder shall have the right to designate three Directors, who shall initially be Paul O’Shea, Nick Packer and Richard Harris (the “**Enstar Directors**”); and

(ii) The Trident Shareholders shall have the right to designate two Directors, who shall initially be Darran A. Baird and James D. Carey (the “**Trident Directors**”).

Notwithstanding the foregoing, the Enstar Director(s) present at any meeting of the Board or committee thereof shall collectively exercise voting power equal to the Enstar Shareholder’s percentage ownership of the Company divided by the aggregate percentage ownership of the Company held by the Enstar Shareholder and the Trident Shareholders, and the Trident Director(s) present at any meeting of the Board or committee thereof shall collectively exercise voting power equal to the Trident Shareholders’ percentage ownership of the Company divided by the aggregate percentage ownership of the Company held by the Enstar Shareholder and the Trident Shareholders.

(b) Each Shareholder shall vote all Common Shares over which such Shareholder has voting control and shall take all other necessary or desirable actions within such Shareholder's control (including in its capacity as shareholder, director, member of a board committee or officer of the Company or otherwise, and whether at a regular or special meeting of the Shareholders or by written consent in lieu of a meeting) to elect to the Board any individual designated by an Initial Shareholder pursuant to **Section 2.01(a)**.

(c) Each Initial Shareholder shall have the right at any time to remove (with or without cause) any Director designated by such Initial Shareholder for election to the Board and each other Shareholder shall vote all Common Shares over which such Shareholder has voting control and shall take all other necessary or desirable actions within such Shareholder's control (including in its capacity as shareholder, director, member of a board committee or officer of the Company or otherwise, and whether at a regular or special meeting of the Shareholders or by written consent in lieu of a meeting) to remove from the Board any individual designated by such Initial Shareholder that such Initial Shareholder desires to remove pursuant to this **Section 2.01(c)**. Except as provided in the preceding sentence, unless an Initial Shareholder shall otherwise consent in writing, no other Shareholder shall take any action to cause the removal of any Director(s) designated by an Initial Shareholder.

(d) In the event a vacancy is created on the Board at any time and for any reason (whether as a result of death, disability, retirement, resignation or removal pursuant to **Section 2.01(c)**), the Initial Shareholder who designated such individual shall have the right to designate a different individual to replace such Director and each other Shareholder shall vote all Common Shares over which such Shareholder has voting control and shall take all other necessary or desirable actions within such Shareholder's control (including in its capacity as shareholder, director, member of a board committee or officer of the Company or otherwise, and whether at a regular or special meeting of the Shareholders or by written consent in lieu of a meeting) to elect to the Board any individual designated by such Initial Shareholder.

(e) The Board shall have the right to establish any committee of Directors as the Board shall deem appropriate from time to time. Subject to this Agreement, the Organizational Documents and Applicable Law, committees of the Board shall have the rights, powers and privileges granted to such committee by the Board from time to time. Any delegation of authority to a committee of Directors to take any action must be approved in the same manner as would be required for the Board to approve such action directly. Any committee of Directors shall be composed of the same proportion of Enstar Directors and Trident Directors as the Initial Shareholders shall then be entitled to appoint to the Board pursuant to this **Section 2.01**.

(f) The presence of a majority of Directors then in office shall constitute a quorum; *provided, that* at least one Trident Director is present at such meeting. If a quorum is not achieved at any duly called meeting, such meeting may be postponed to a time no earlier than 48 hours after written notice of such postponement has been given to the Directors. If no Trident Director is present for three consecutive meetings, then the presence, in person or by proxy, of Directors designated by Shareholders holding at least 51% of the Common Shares shall constitute a quorum for the next meeting.

Section 2.02 Voting Arrangements. In addition to any vote or consent of the Board or the Shareholders of the Company required by Applicable Law, without the consent of the Trident Shareholders the Company shall not take any action or enter into any commitment to take any action to (and shall cause its Material Subsidiaries to not take any action or enter into any commitment to take any action to):

(a) amend, modify or waive the Organizational Documents or the charter, bye-laws or other organizational documents of any Material Subsidiary;

(b) make any material changes in the tax or accounting methods or policies or the tax elections of the Company or any Material Subsidiary (other than as required by Applicable Law or GAAP) that would have a materially adverse impact on the Trident Shareholders;

(c) enter into, amend in any material respect, waive or terminate any Related Party Agreement other than (i) the entry into a Related Party Agreement that is on an arm's length basis and on terms no less favorable to the Company or the applicable Material Subsidiary than those that could be obtained from an unaffiliated third party and (ii) any reinsurance or other risk transfer arrangement with any Affiliate of the Enstar Shareholder in which all or substantially all of the underlying insurance risk is borne by the Affiliate of the Enstar Shareholder, *provided, however,* that any such reinsurance or other risk transfer transaction provides the Company a market rate fronting fee;

(d) enter into or effect any material transaction or series of related transactions outside of the ordinary course of business involving the purchase, lease, license, exchange or other acquisition (including by merger, consolidation, acquisition of stock or acquisition of assets) by the Company or any Material Subsidiary of any assets and/or equity interests of any Person that are material in amount to the Company and its Subsidiaries taken as a whole, other than the acquisition by the Company of Arden Re and Atrium;

(e) except for a Change of Control effected in accordance with **Section 3.03** which will not require the consent of the Trident Shareholders, enter into or effect any material transaction or series of related transactions outside of the ordinary course of business involving the sale, lease, license, exchange or other disposition (including by merger, consolidation, sale of stock or sale of assets) by the Company or any Material Subsidiary of any stock or assets that are material in amount to the Company and its Subsidiaries taken as a whole;

(f) grant or authorize the grant of Common Shares or other equity securities of the Company or any Subsidiary of the Company in an amount greater than 10% of the value of the then-outstanding Common Shares to any existing or prospective officers, directors, employees or consultants of the Company or any Subsidiary of the Company pursuant to any stock option, employee stock purchase or similar equity-based plans or other compensation agreements;

(g) initiate or consummate an Initial Public Offering or make a public offering and sale of Common Shares or any other securities; or

(h) dissolve, wind-up or liquidate the Company or any Material Subsidiary or initiate a bankruptcy proceeding involving the Company or any Material Subsidiary.

For purposes of this **Section 2.02**, the “ordinary course of business” of the Company and its Subsidiaries shall include the acquisition of insurance and reinsurance companies in run-off and portfolios of insurance and reinsurance business in run-off.

Section 2.03 Consultation on CEO Matters. The Company shall consult with, but need not obtain the consent of, the Trident Shareholders prior to taking any action or entering into any commitment to take any action to appoint or remove (with or without cause) the Company’s or any Material Subsidiary’s chief executive officer or enter into or amend any material term of any employment agreement or arrangement with the Company’s or any Material Subsidiary’s chief executive officer.

Section 2.04 Atrium Underwriting Group Limited. The Trident Shareholders shall have the right to designate one member of the board of directors of Atrium Underwriting Group Limited. The Initial Shareholders shall, and shall cause their Director designees to, take all such actions as may be necessary or desirable to give effect to this provision.

ARTICLE III TRANSFER OF INTERESTS

Section 3.01 General Restrictions on Transfer.

(a) Except as permitted pursuant to **Section 3.01(b)**, each Shareholder agrees that such Shareholder will not, directly or indirectly, voluntarily or involuntarily Transfer any of its Common Shares prior to September 6, 2018 (the “**Lock-up Period**”).

(b) The provisions of **Section 3.01(a)**, **Section 3.02**, **Section 3.03** and **Section 3.04** shall not apply to any of the following Transfers by any Shareholder of any of its Common Shares (i) to a Permitted Transferee, (ii) pursuant to a merger, consolidation or other business combination of the Company with a Third Party Purchaser that has been

approved in compliance with **Section 2.02(e)** or (iii) which is otherwise approved in writing by Shareholders holding not less than two-thirds of the issued and outstanding Common Shares of the Company immediately prior to the Transfer.

(c) In addition to any legends required by Applicable Law, each certificate (if any) representing the Common Shares of the Company shall bear a legend substantially in the following form (and if the Common Shares are not certificated, the Company's ledger shall include a notation substantially in the following form omitting the reference to a certificate):

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A SHAREHOLDERS' AGREEMENT (A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY). NO TRANSFER, SALE, ASSIGNMENT, PLEDGE, HYPOTHECATION OR OTHER DISPOSITION OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY BE MADE EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF SUCH SHAREHOLDERS' AGREEMENT AND (A) PURSUANT TO A REGISTRATION STATEMENT EFFECTIVE UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR (B) PURSUANT TO AN EXEMPTION FROM REGISTRATION THEREUNDER. THE HOLDER OF THIS CERTIFICATE, BY ACCEPTANCE OF THIS CERTIFICATE, AGREES TO BE BOUND BY ALL OF THE PROVISIONS OF SUCH SHAREHOLDERS' AGREEMENT."

(d) Prior notice shall be given to the Company by the transferor of any Transfer (whether or not to a Permitted Transferee) of any Common Shares. Prior to consummation of any Transfer by any Shareholder of any of its Common Shares, such party shall cause the transferee thereof to execute and deliver to the Company a Joinder Agreement and agree to be bound by the terms and conditions of this Agreement. Upon any Transfer by any Shareholder of any of its Common Shares, in accordance with the terms of this Agreement, the transferee thereof shall be substituted for, and shall assume all the rights and obligations under this Agreement of, the transferor thereof.

(e) Notwithstanding any other provision of this Agreement, each Shareholder agrees that it will not, directly or indirectly, Transfer any of its Common Shares (i) except as permitted under the Securities Act and other applicable federal, state or foreign securities laws, and then, if requested by the Company, only upon delivery to the Company of an opinion of counsel in form and substance satisfactory to the Company to the effect that such Transfer may be effected without registration under the Securities Act or any applicable foreign securities laws, (ii) if it would cause the Company or any of its Subsidiaries to be required to register as an investment company under the United States Investment Company Act of 1940, as amended, or any comparable foreign law, or (iii) if it would cause the assets of the Company or any of its Subsidiaries to be deemed plan assets as defined under the United States Employee Retirement Income Security Act of 1974 or its accompanying regulations or any comparable foreign law or result in any "prohibited transaction" thereunder involving the Company. In any event, the Board may

refuse the Transfer to any Person if (i) such Transfer would have a material adverse effect on the Company as a result of any regulatory or other restrictions imposed by any Governmental Authority or (ii) any non-de minimis adverse tax consequence to the Company, any Subsidiary of the Company, or any Shareholder or any of their Affiliates would result from such Transfer.

(f) Any Transfer or attempted Transfer of any Common Shares in violation of this Agreement shall be null and void, no such Transfer shall be recorded on the Company's books and the purported transferee in any such Transfer shall not be treated (and the purported transferor shall continue be treated) as the owner of such Common Shares for all purposes of this Agreement.

Section 3.02 Right of First Offer.

(a) At any time following the Lock-up Period, and subject to the terms and conditions specified in this **Section 3.02**, each Initial Shareholder shall have a right of first offer if any other Shareholder (such Shareholder, an "**Offering Shareholder**") proposes to Transfer any Common Shares (the "**Offered Shares**") owned by it to any Third Party Purchaser. Following the Lock-up Period, each time the Offering Shareholder proposes to Transfer any Offered Shares (other than Transfers permitted pursuant to **Section 3.01** and Transfers made pursuant to **Section 3.03**), the Offering Shareholder shall first make an offering of the Offered Shares to the Initial Shareholders (other than itself, as applicable) in accordance with the following provisions of this **Section 3.02**.

(b) The Offering Shareholder shall give written notice (the "**Offering Shareholder Notice**") to the Company and the Initial Shareholders (other than itself, as applicable) stating its bona fide intention to Transfer the Offered Shares and specifying the number of Offered Shares and the material terms and conditions, including the price, pursuant to which the Offering Shareholder proposes to Transfer the Offered Shares. The Offering Shareholder Notice shall constitute the Offering Shareholder's offer to Transfer the Offered Shares to such Initial Shareholders, which offer shall be irrevocable for a period of 20 Business Days (the "**ROFO Notice Period**").

(c) By delivering the Offering Shareholder Notice, the Offering Shareholder represents and warrants to the Company and to each Initial Shareholder receiving such notice that: (i) the Offering Shareholder has full right, title and interest in and to the Offered Shares; (ii) the Offering Shareholder has all the necessary power and authority and has taken all necessary action to Transfer such Offered Shares as contemplated by this **Section 3.02**; and (iii) the Offered Shares are free and clear of any and all Liens other than those arising as a result of or under the terms of this Agreement.

(d) Upon receipt of the Offering Shareholder Notice, each Initial Shareholder receiving such notice shall have until the end of the ROFO Notice Period to elect to purchase any amount of the Offered Shares by delivering a written notice (a "**ROFO**

Notice") to the Offering Shareholder and the Company stating that it agrees to purchase such specified amount of Offered Shares on the terms specified in the Offering Shareholder Notice. Any ROFO Notice shall be binding upon delivery and irrevocable by the applicable Shareholder. Each Initial Shareholder that delivers a ROFO Notice shall be a "**Purchasing Shareholder**." If the Purchasing Shareholder is the Trident Shareholder, then at the same time as the Trident Shareholder delivers a ROFO Notice to the Company it shall also deliver a copy of such notice to the Dowling Shareholder whereupon the Dowling Shareholder shall be entitled upon written notice to the Offering Shareholder, the Company and the Trident Shareholder within ten (10) Business Days after the end of the ROFO Notice Period (the "**Extended ROFO Notice Period**") to participate in such right of first offer under this **Section 3.02** as if it were an Initial Shareholder in accordance with and subject to the terms of this **Section 3.02** (and references to the Purchasing Shareholder and the Initial Shareholder for the purposes of this **Section 3.02** shall be construed accordingly). If the Initial Shareholders do not, in the aggregate, elect to purchase all of the Offered Shares by the end of the ROFO Notice Period or the Extended ROFO Notice Period (as the case may be), each Purchasing Shareholder shall then have the right to purchase all or any portion of the remaining Offered Shares not elected to be purchased by the Initial Shareholders. As promptly as practicable following the ROFO Notice Period or the Extended ROFO Notice Period (as the case may be), the Offering Shareholder shall deliver a written notice to each Purchasing Shareholder stating the number of remaining Offered Shares available for purchase. For a period of 10 Business Days following the receipt of such notice, each Purchasing Shareholder shall have the right to elect to purchase all or any portion of the remaining Offered Shares by delivering a subsequent ROFO Notice specifying the number of additional Offered Shares it desires to purchase. Notwithstanding the foregoing, the Initial Shareholders may only exercise their rights under this **Section 3.02** to purchase the Offered Shares if, after giving effect to all elections made under this **Section 3.02(d)**, no less than all of the Offered Shares will be purchased by the Purchasing Shareholders. If the Purchasing Shareholders elect to purchase an amount of Shares that exceeds the amount of Offered Shares, then each Purchasing Shareholder's right to purchase the Offered Shares shall be limited to an amount equal to the lesser of (x) the aggregate number of Offered Shares the Purchasing Shareholder proposes to buy as stated in the ROFO Notice and (y) the product of the aggregate number of Offered Shares multiplied by a fraction (A) the numerator of which is equal to the number of Common Shares then held by the Purchasing Shareholder and (B) the denominator of which is equal to the number of shares then held by all of the Purchasing Shareholders; provided that if the application of the foregoing formula results in less than all the Offered Shares being allocated to the Purchasing Shareholders, the remaining Offered Shares shall be allocated among the Purchasing Shareholders who received less than the number of Offered Shares they proposed to buy as stated in their ROFO Notice by successive application of the foregoing formula to the aggregate number of unallocated Offered Shares *mutatis mutandis*, including adjusting clause (x) of the formula as necessary to reflect the number of Offered Shares previously allocated to

each such Purchasing Shareholder and the removal from clause (y)(B) of the formula of any Common Shares held by any Purchasing Shareholder previously allocated all of the Offered Shares they proposed to buy as stated in their ROFO Notice.

(e) If an Initial Shareholder does not deliver a ROFO Notice during the ROFO Notice Period or the Dowling Shareholder does not deliver a ROFO Notice during the Extended ROFO Notice Period, then such Initial Shareholder or the Dowling Shareholder (as the case may be) shall be deemed to have waived all of such Shareholder's rights to purchase the Offered Shares under this **Section 3.02**. For the avoidance of doubt, if the Trident Shareholder does not deliver a ROFO Notice during the ROFO Notice Period, then the Dowling Shareholder shall not be entitled to participate in the right of first offer hereunder and shall not be deemed to be a Purchasing Shareholder or an Initial Shareholder for the purposes of this **Section 3.02**.

(f) If no Initial Shareholder delivers a ROFO Notice or if the Purchasing Shareholders elect to purchase less than all of the Offered Shares in accordance with **Section 3.02(d)**, the Offering Shareholder may, during the 180-day period immediately following the expiration of the ROFO Notice Period, which period may be extended for a reasonable time not to exceed 270 days to the extent reasonably necessary to obtain any Government Approvals (the "**Waived ROFO Transfer Period**"), and subject to the provisions of **Section 3.04**, Transfer all of the Offered Shares to a Third Party Purchaser on terms and conditions no more favorable to the Third Party Purchaser than those set forth in the Offering Shareholder Notice. If the Offering Shareholder does not consummate the Transfer of the Offered Shares within the Waived ROFO Transfer Period, the rights provided hereunder shall be deemed to be revived and the Offered Shares shall not be offered to any Person unless first re-offered to the Initial Shareholders (other than itself, as applicable) in accordance with this **Section 3.02**.

(g) Each Shareholder shall take all actions as may be reasonably necessary to consummate any Transfer contemplated by this **Section 3.02**, including entering into agreements and delivering certificates and instruments and consents as may be deemed necessary or appropriate.

(h) At the closing of any Transfer pursuant to this **Section 3.02**, the Offering Shareholder shall deliver to the Purchasing Shareholders the certificate or certificates representing the Offered Shares to be sold (if any), accompanied by stock powers and all necessary stock transfer taxes paid and stamps affixed, if necessary, against receipt of the purchase price therefor from such Purchasing Shareholders by certified or official bank check or by wire transfer of immediately available funds.

Section 3.03 Drag-along Rights.

(a) If at any time following the Lock-up Period the Enstar Shareholder (together with its Permitted Transferees) holds no less than 55% of the aggregate number of outstanding Common Shares of the Company held by the Initial Shareholders at such

time and receives a bona fide offer from a Third Party Purchaser to consummate, in one transaction, or a series of related transactions, a Change of Control (a “**Drag-along Sale**”), the Enstar Shareholder shall have the right to require that each other Shareholder (each, a “**Drag-along Shareholder**”) participate in such Transfer in the manner set forth in this **Section 3.03**, provided, however, that no Drag-along Shareholder shall be required to participate in the Drag-along Sale if the consideration for the Drag-along Sale is other than cash or registered securities listed on an established U.S. or foreign securities exchange. Notwithstanding anything to the contrary in this Agreement, each Drag-along Shareholder shall vote in favor of the transaction and take all actions to waive any dissenters, appraisal or other similar rights.

(b) The Enstar Shareholder shall exercise its rights pursuant to this **Section 3.03** by delivering a written notice (the “**Drag-along Notice**”) to the Company and each Drag-along Shareholder no later than 20 days prior to the closing date of such Drag-along Sale. The Drag-along Notice shall make reference to the Enstar Shareholder’s rights and obligations hereunder and shall describe in reasonable detail:

- (i) the number of Common Shares to be sold by the Enstar Shareholder, if the Drag-along Sale is structured as a Transfer of Common Shares;
- (ii) the identity of the Third Party Purchaser;
- (iii) the proposed date, time and location of the closing of the Drag-along Sale;
- (iv) the per share purchase price and the other material terms and conditions of the Transfer, including a description of any non-cash consideration in sufficient detail to permit the valuation thereof; and
- (v) a copy of any form of agreement proposed to be executed in connection therewith.

(c) If the Drag-along Sale is structured as a Transfer of Common Shares, then, subject to **Section 3.03(d)**, each Drag-along Shareholder shall Transfer the number of shares equal to the product of (x) the number of Common Shares held by such Drag-along Shareholder and (y) a fraction (A) the numerator of which is equal to the number of Common Shares the Enstar Shareholder proposes to sell or transfer in the Drag-along Sale and (B) the denominator of which is equal to the number of Common Shares then held by the Enstar Shareholder.

(d) The consideration to be received by a Drag-along Shareholder shall be the same form and amount of consideration per share of Common Shares to be received by the Enstar Shareholder (or, if the Enstar Shareholder is given an option as to the form and amount of consideration to be received, the same option shall be given) and the terms and conditions of such Transfer shall, except as otherwise provided in the immediately

succeeding sentence, be the same as those upon which the Enstar Shareholder Transfers its Common Shares. Each Drag-along Shareholder shall make or provide the same representations, warranties, covenants, indemnities and agreements as the Enstar Shareholder makes or provides in connection with the Drag-along Sale (except that in the case of representations, warranties, covenants, indemnities and agreements pertaining specifically to the Enstar Shareholder, the Drag-along Shareholder shall make the comparable representations, warranties, covenants, indemnities and agreements pertaining specifically to itself); *provided, that* all representations, warranties, covenants and indemnities shall be made by the Enstar Shareholder and each Drag-along Shareholder severally and not jointly and any indemnification obligation shall be pro rata based on the consideration received by the Enstar Shareholder and each Drag-along Shareholder, in each case in an amount not to exceed the aggregate proceeds received by the Enstar Shareholder and each such Drag-along Shareholder in connection with the Drag-along Sale.

(e) The fees and expenses of the Enstar Shareholder incurred in connection with a Drag-along Sale and for the benefit of all Shareholders (it being understood that costs incurred by or on behalf of a Enstar Shareholder for its sole benefit will not be considered to be for the benefit of all Shareholders), to the extent not paid or reimbursed by the Company or the Third Party Purchaser, shall be shared by all the Shareholders on a pro rata basis, based on the aggregate consideration received by each Shareholder; *provided, that* no Shareholder shall be obligated to make or reimburse any out-of-pocket expenditure prior to the consummation of the Drag-along Sale.

(f) Each Shareholder shall take all actions as may be reasonably necessary to consummate the Drag-along Sale, including entering into agreements and delivering certificates and instruments, in each case consistent with the agreements being entered into and the certificates being delivered by the Enstar Shareholder.

(g) The Enstar Shareholder shall have 180 days following the date of the Drag-along Notice in which to consummate the Drag-along Sale, on the terms set forth in the Drag-along Notice (which such 180-day period may be extended for a reasonable time not to exceed 270 days to the extent reasonably necessary to obtain any Government Approvals). If at the end of such period, the Enstar Shareholder has not completed the Drag-along Sale, the Enstar Shareholder may not then effect a transaction subject to this **Section 3.03** without again fully complying with the provisions of this **Section 3.03**.

Section 3.04 Tag-along Rights.

(a) If at any time following the Lock-up Period a Shareholder (the “**Selling Shareholder**”) proposes to Transfer any shares of its Common Shares to a Third Party Purchaser (the “**Proposed Transferee**”) (and if the Selling Shareholder is the Enstar Shareholder and it cannot or has not elected to exercise its drag-along rights set forth in **Section 3.03**), each other Shareholder (each, a “**Tag-along Shareholder**”) shall be permitted to participate in such Transfer (a “**Tag-along Sale**”) on the terms and conditions set forth in this **Section 3.04**.

(b) Prior to the consummation of any such Transfer of Common Shares described in **Section 3.04(a)**, and after satisfying its obligations pursuant to **Section 3.02**, the Selling Shareholder shall deliver to the Company and each other Shareholder a written notice (a “**Sale Notice**”) of the proposed Tag-along Sale subject to this **Section 3.04** no later than 20 Business Days prior to the closing date of the Tag-along Sale. The Sale Notice shall make reference to the Tag-along Shareholders’ rights hereunder and shall describe in reasonable detail:

- (i) the aggregate number of Common Shares the Proposed Transferee has offered to purchase;
- (ii) the identity of the Proposed Transferee;
- (iii) the proposed date, time and location of the closing of the Tag-along Sale;
- (iv) the per share purchase price and the other material terms and conditions of the Transfer, including a description of any non-cash consideration in sufficient detail to permit the valuation thereof; and
- (v) a copy of any form of agreement proposed to be executed in connection therewith.

(c) Each Tag-along Shareholder shall exercise its right to participate in a Transfer of Common Shares by the Selling Shareholder subject to this **Section 3.04** by delivering to the Selling Shareholder a written notice (a “**Tag-along Notice**”) stating its election to do so and specifying the number of Common Shares to be Transferred by it no later than five Business Days after receipt of the Sale Notice (the “**Tag-along Period**”). The offer of each Tag-along Shareholder set forth in a Tag-along Notice shall be irrevocable, and, to the extent such offer is accepted, such Tag-along Shareholder shall be bound and obligated to Transfer in the proposed Transfer on the terms and conditions set forth in this **Section 3.04**. The Selling Shareholder and each Tag-along Shareholder shall have the right to Transfer in a Transfer subject to this **Section 3.04** the number of Common Shares equal to the product of (x) the aggregate number of Common Shares the Proposed Transferee proposes to buy as stated in the Sale Notice and (y) a fraction (A) the numerator of which is equal to the number of Common Shares then held by the Selling Shareholder or such Tag-along Shareholder, as the case may be, and (B) the denominator of which is equal to the number of shares then held by the Selling Shareholder and each Tag-along Shareholder.

(d) Each Tag-along Shareholder who does not deliver a Tag-along Notice in compliance with **Section 3.04(c)** above shall be deemed to have waived all of such Tag-

along Shareholder's rights to participate in such Transfer, and the Selling Shareholder shall (subject to the rights of any participating Tag-along Shareholder) thereafter be free to Transfer to the Proposed Transferee its Common Shares at a per share price that is no greater than the per share price set forth in the Sale Notice and on other terms and conditions which are not materially more favorable to the Selling Shareholder than those set forth in the Sale Notice without any further obligation to the non-accepting Tag-along Shareholders.

(e) Each Tag-along Shareholder participating in a Transfer pursuant to this **Section 3.04** shall receive the same consideration per share as the Selling Shareholder after deduction of such Tag-along Shareholder's proportionate share of the related expenses in accordance with **Section 3.04(g)** below.

(f) Each Tag-along Shareholder shall make or provide the same representations, warranties, covenants, indemnities and agreements as the Selling Shareholder makes or provides in connection with the Tag-along Sale (except that in the case of representations, warranties, covenants, indemnities and agreements pertaining specifically to the Selling Shareholder, the Tag-along Shareholder shall make the comparable representations, warranties, covenants, indemnities and agreements pertaining specifically to itself); *provided, that* all representations, warranties, covenants and indemnities shall be made by the Selling Shareholder and each Tag-along Shareholder severally and not jointly and any indemnification obligation in respect of breaches of representations and warranties shall be pro rata based on the consideration received by the Selling Shareholder and each Tag-along Shareholder, in each case in an amount not to exceed the aggregate proceeds received by the Selling Shareholder and each such Tag-along Shareholder in connection with any Tag-along Sale.

(g) The fees and expenses of the Selling Shareholder incurred in connection with a Tag-along Sale and for the benefit of all Shareholders (it being understood that costs incurred by or on behalf of the Selling Shareholder for its sole benefit will not be considered to be for the benefit of all Shareholders), to the extent not paid or reimbursed by the Company or the Proposed Transferee, shall be shared by all the Shareholders participating in the Tag-along Sale on a pro rata basis, based on the aggregate consideration received by each such Shareholder; *provided, that* no Shareholder shall be obligated to make or reimburse any out-of-pocket expenditure prior to the consummation of the Tag-along Sale.

(h) Each Tag-along Shareholder shall take all actions as may be reasonably necessary to consummate the Tag-along Sale, including entering into agreements and delivering certificates and instruments, in each case consistent with the agreements being entered into and the certificates being delivered by the Selling Shareholder.

(i) The Selling Shareholder shall have 180 days following the expiration of the Tag-along Period in which to Transfer the Common Shares described in the Sale

Notice, on the terms set forth in the Sale Notice (which such 180-day period may be extended for a reasonable time not to exceed 270 days to the extent reasonably necessary to obtain any Government Approvals). If at the end of such period, the Selling Shareholder has not completed such Transfer, the Selling Shareholder may not then effect a Transfer of Common Shares subject to this **Section 3.04** without again fully complying with the provisions of this **Section 3.04**.

(j) If the Selling Shareholder Transfers to the Proposed Transferee any of its Common Shares in breach of this **Section 3.04**, then each Tag-along Shareholder shall have the right to Transfer to the Selling Shareholder, and the Selling Shareholder undertakes to purchase from each Tag-along Shareholder, the number of Common Shares that such Tag-along Shareholder would have had the right to Transfer to the Proposed Transferee pursuant to this **Section 3.04**, for a per share amount and form of consideration and upon the terms and conditions on which the Proposed Transferee bought such Common Shares from the Selling Shareholder, but without indemnity being granted by any Tag-along Shareholder to the Selling Shareholder; *provided, that*, nothing contained in this **Section 3.04** shall preclude any Shareholder from seeking alternative remedies against such Selling Shareholder as a result of its breach of this **Section 3.04**.

Section 3.05 Enstar Call Right and Trident Put Right.

(a) At any time during the period beginning on September 6, 2018, and ending on December 5, 2018, or at any time following September 6, 2020, the Enstar Shareholder shall have the right (a “**Call Right**”) by written notice to the other Shareholders to purchase all, but not less than all, of the Common Shares owned by the other Shareholders and their Permitted Transferees.

(b) At any time after September 6, 2020, the Trident Shareholders, acting collectively, shall have the right (the “**Put Right**”) to require the Enstar Shareholder to purchase all, but not less than all, of the Common Shares held by the Trident Shareholders and their Permitted Transferees collectively. In the event that the Trident Shareholders elect to exercise their rights under this **Section 3.05(b)**, then the Trident Shareholders shall give written notice (a “**Put Notice**”) to the Company, the Enstar Shareholder and the other Shareholders stating their bona fide intention to exercise their Put Right over their Common Shares. Upon receipt of the Put Notice, each other Shareholder (other than the Enstar Shareholder or the Trident Shareholders) receiving such notice shall have 20 Business Days (the “**Put Notice Period**”) to elect to participate in such exercise of the Put Right by the Trident Shareholders by delivering a written notice (a “**Participation Notice**”) to the Company, the Enstar Shareholder and the Trident Shareholders requiring the Enstar Shareholder to purchase all, but not less than all, of the Common Shares held by such Shareholder and its Permitted Transferees. Any Participation Notice shall be binding upon delivery and irrevocable by the applicable Shareholder. Each Shareholder that does not deliver a Participation Notice during the Put Notice Period shall be deemed to have waived all of such Shareholder’s rights to

participate in the exercise of the Put Right. By delivering a Participation Notice, the relevant Shareholder represents and warrants to the Company and to the Enstar Shareholder that: (i) it has full right, title and interest in and to the Common Shares which are the subject of the Participation Notice; (ii) it has all the necessary power and authority and has taken all necessary action to Transfer such Common Shares as contemplated by this **Section 3.05(b)**; and (iii) such Common Shares are free and clear of any and all Liens other than those arising as a result of or under the terms of this Agreement.

(c) The purchase price payable by the Enstar Shareholder upon the exercise of the Call Right or the Put Right, as the case may be, shall be equal to fair market value of the Common Shares held by the relevant Shareholder(s) and their Permitted Transferees which are the subject of the Call Right or the Put Right as exercised pursuant to this **Section 3.05** (the “**Relevant Shareholder(s)**”) calculated based on the overall fair market value of the Company determined on a going concern basis as between a willing buyer and willing seller with no discount for illiquidity or a minority interest, as such value may be mutually agreed upon by the Enstar Shareholder and the Trident Shareholder or, if no such agreement is reached, determined in accordance with the procedures set forth below (the “**Fair Market Value**”):

(i) Promptly after determining that the Enstar Shareholder and the Trident Shareholders are unable to agree upon a Fair Market Value but, in any event, no later than 30 Business Days after the exercise of the Call Right or the Put Right, as the case may be, the Enstar Shareholder and the Trident Shareholders shall appoint a mutually acceptable independent appraiser (the “**Independent Appraiser**”) to determine the Fair Market Value (determined on a going concern basis as between a willing buyer and a willing seller with no discount for illiquidity or a minority interest) of the Common Shares held by the Relevant Shareholder(s) and their Permitted Transferees. Each of the Enstar Shareholder and the Trident Shareholders (acting together) shall provide the Independent Appraiser with its respective determination of Fair Market Value, together with the supporting calculations and analyses prepared by such Initial Shareholder with respect thereto. The Enstar Shareholder and the Trident Shareholders shall instruct the Independent Appraiser to determine, in writing within 30 days of such Independent Appraiser’s appointment, which of the Enstar Shareholder’s and the Trident Shareholders’ determination of Fair Market Value is the more reasonable, and such determination shall be final for all purposes of this **Section 3.05**. The costs and expenses of the Independent Appraiser shall be borne equally by the Enstar Shareholder and the Trident Shareholders.

(ii) To enable the Independent Appraiser to conduct the valuation, the Enstar Shareholder, the Relevant Shareholder(s) and the Company shall furnish to the Independent Appraiser such information as the Independent Appraiser may request, including information regarding the business of the Company and its Subsidiaries and the Company’s assets, properties, financial condition, earnings and prospects.

(d) Within 90 days after the date of the final determination of the Fair Market Value pursuant to this **Section 3.05** (which period shall be extended solely to the extent needed to obtain any required Government Approvals, *provided, that* the Shareholders shall, and shall cause their Permitted Transferees to, have used their reasonable best efforts to obtain such approvals in a timely manner, and *provided, further, that* in no event shall the Enstar Shareholder be obligated to pay the purchase price for a sale and purchase pursuant to the Put Right in cash due to any failure to obtain any Government Approvals that are required to permit the Relevant Shareholders to acquire or hold any unrestricted ordinary shares of Enstar), the Relevant Shareholders shall, and shall cause their Permitted Transferees to, sell to the Enstar Shareholder, free and clear of any Liens, all of the Common Shares held by them.

(e) Each Shareholder shall take all actions as may be reasonably necessary to consummate the sale contemplated by this **Section 3.05**, including entering into agreements and delivering certificates and instruments and consents as may be deemed necessary or appropriate.

(f) At the closing of any sale and purchase pursuant to this **Section 3.05**, the Relevant Shareholders shall, and shall cause their Permitted Transferees to, deliver to the Enstar Shareholder the certificate or certificates representing their Common Shares (if any), accompanied by stock powers and all necessary stock transfer taxes paid and stamps affixed, if necessary, against receipt of the purchase price therefor from the Enstar Shareholder by, (i) in the case of a sale and purchase pursuant to the Call Right, wire transfer of immediately available funds, or (ii) in the case of a sale and purchase pursuant to the Put Right, at the option of the Enstar Shareholder, either (A) wire transfer of immediately available funds, (B) unrestricted ordinary shares of Enstar (provided that such ordinary shares are then listed or admitted to trading on the NASDAQ Stock Market, the New York Stock Exchange or another national securities exchange), or (C) a combination of (A) and (B). If the purchase price at the closing of any sale and purchase pursuant to this **Section 3.05** consists of unrestricted ordinary shares of Enstar, the value of such ordinary shares will be deemed to equal the average of the last reported sale price of the ordinary shares over the 10 trading day period ending on, and including, the trading day immediately preceding the effective date of any such closing.

(g) Enstar hereby absolutely, unconditionally and irrevocably guarantees to each of the Shareholders (other than the Enstar Shareholder) and their Permitted Transferees, on the terms and conditions set forth herein, the due and punctual payment, observance, performance and discharge of the Enstar Shareholder's obligations under this **Section 3.05**. Each of the Shareholders hereby agrees that in no event shall Enstar be required to pay any amount to the Shareholders or their Permitted Transferees under, in respect of, or in connection with this Agreement other than as expressly set forth herein.

ARTICLE IV
PRE-EMPTIVE RIGHTS AND OTHER AGREEMENTS

Section 4.01 Pre-emptive Right.

(a) The Company hereby grants to each Initial Shareholder and the Dowling Shareholder (each, a “**Pre-emptive Shareholder**”) the right to purchase its pro rata portion of any new Common Shares (other than any Excluded Securities) (the “**New Securities**”) that the Company may from time to time propose to issue or sell to any Person.

(b) The Company shall give written notice (an “**Issuance Notice**”) of any proposed issuance described in subsection (a) above to the Pre-emptive Shareholders within five Business Days following any meeting of the Board at which any such issuance or sale is approved. The Issuance Notice shall set forth the material terms and conditions of the proposed issuance, including:

- (i) the number of New Securities proposed to be issued and the percentage of the Company’s outstanding Common Shares, on a fully diluted basis, that such issuance would represent;
- (ii) the proposed issuance date, which shall be at least 20 Business Days from the date of the Issuance Notice; and
- (iii) the proposed purchase price per share.

(c) Each Pre-emptive Shareholder shall for a period of 15 Business Days following the receipt of an Issuance Notice (the “**Exercise Period**”) have the right to elect irrevocably to purchase, at the purchase price set forth in the Issuance Notice, up to the amount of New Securities equal to the product of (x) the total number of New Securities to be issued by the Company on the issuance date and (y) a fraction determined by dividing (A) the number of Common Shares owned by such Pre-emptive Shareholder immediately prior to such issuance by (B) the total number of Common Shares owned by all Initial Shareholders on such date immediately prior to such issuance (the “**Pre-emptive Pro Rata Portion**”) by delivering a written notice to the Company. Such Pre-emptive Shareholder’s election to purchase New Securities shall be binding and irrevocable.

(d) No later than five Business Days following the expiration of the Exercise Period, the Company shall notify each Pre-emptive Shareholder in writing of the number of New Securities that each Pre-emptive Shareholder has agreed to purchase (including, for the avoidance of doubt, where such number is zero) (the “**Over-allotment Notice**”). Each Pre-emptive Shareholder exercising its right to purchase its Pre-emptive Pro Rata Portion of the New Securities in full (an “**Exercising Shareholder**”) shall have a right of over-allotment such that if any other Pre-emptive Shareholder fails to exercise its right

under this **Section 4.01** to purchase its Pre-emptive Pro Rata Portion of the New Securities (each, a “**Non-Exercising Shareholder**”), such Exercising Shareholder may purchase all or any portion of such Non-Exercising Shareholder’s allotment (the “**Over-allotment New Securities**”) by giving written notice to the Company (within five Business Days of receipt of the Over-allotment Notice) setting forth the number of Over-allotment New Securities that such Exercising Shareholder is willing to purchase (the “**Over-allotment Exercise Period**”). Such Exercising Shareholder’s election to purchase Over-allotment New Securities shall be binding and irrevocable. If more than one Exercising Shareholder elects to exercise its right of over-allotment, each Exercising Shareholder shall have the right to purchase the number of Over-allotment New Securities it elected to purchase in its written notice; *provided, that* if the over-allotment New Securities are over-subscribed, each Exercising Shareholder shall purchase its pro rata portion of the available Over-allotment New Securities based upon the relative Pre-emptive Pro Rata Portions of the Exercising Shareholders.

(e) The Company shall be free to complete the proposed issuance or sale of New Securities described in the Issuance Notice with respect to any New Securities not elected to be purchased pursuant to **Section 4.01(c)** and **Section 4.01(d)** above in accordance with the terms and conditions set forth in the Issuance Notice (except that the amount of New Securities to be issued or sold by the Company may be reduced) so long as such issuance or sale is closed within 180 days after the expiration of the Over-allotment Exercise Period (subject to the extension of such 180-day period for a reasonable time not to exceed 270 days to the extent reasonably necessary to obtain any Government Approvals). In the event the Company has not sold such New Securities within such time period, the Company shall not thereafter issue or sell any New Securities without first again offering such securities to the Shareholders in accordance with the procedures set forth in this **Section 4.01**.

(f) Upon the consummation of the issuance of any New Securities in accordance with this **Section 4.01**, the Company shall deliver to each Exercising Shareholder certificates (if any) evidencing the New Securities, which New Securities shall be issued free and clear of any Liens (other than those arising hereunder or under Applicable Law and those attributable to the actions of the purchasers thereof), and the Company shall so represent and warrant to the purchasers thereof, and further represent and warrant to such purchasers that such New Securities shall be, upon issuance thereof to the Exercising Shareholders and after payment therefor, duly authorized and validly issued. Each Exercising Shareholder shall deliver to the Company the purchase price for the New Securities purchased by it by wire transfer of immediately available funds. Each party to the purchase and sale of New Securities shall take all such other actions as may be reasonably necessary to consummate the purchase and sale including entering into such additional agreements as may be necessary or appropriate.

Section 4.02 Corporate Opportunities. Notwithstanding anything contained in this Agreement or under Applicable Law to the contrary (to the full extent permitted by Applicable Law), (i) the Initial Shareholders, the Dowling Shareholder and their respective Affiliates (A) may engage in or possess an interest in other business ventures of any nature and description (whether similar or dissimilar to the business of the Company or any of its Subsidiaries), independently or with others, and none of the Company, any Subsidiary, any other Shareholder, and each of their respective Affiliates shall have any right by virtue of this Agreement in or to any such investment or interest of the Enstar Shareholder, the Trident Shareholders, the Dowling Shareholder, any Enstar Director or any Trident Director and any of its or their respective Affiliates to any income or profits derived therefrom, and the pursuit of any such venture shall not be deemed wrongful or improper, and (B) shall not be obligated to present any investment opportunity to the Company or any Subsidiary even if such opportunity is of a character that, if presented to the Company or any Subsidiary, could be taken by the Company or such Subsidiary, and (ii) the parties hereby waive (and the Company shall cause the Subsidiaries to waive) to the fullest extent permitted by law any fiduciary or other duty of the Initial Shareholders, the Dowling Shareholder and the Enstar Directors and Trident Directors not expressly set forth in this Agreement, including fiduciary or other duties that may be related to or associated with self-dealing, corporate opportunities or otherwise, in each case so long as such Person acts in a manner consistent with this Agreement.

Section 4.03 Confidentiality.

(a) Each Shareholder shall and shall cause its Representatives to, keep confidential and not divulge any information (including all budgets, business plans and analyses) concerning the Company, including its assets, business, operations, financial condition or prospects (“**Information**”), and to use, and cause its Representatives to use, such Information only in connection with the operation of the Company; *provided, that* nothing herein shall prevent any Shareholder from disclosing such Information (i) upon the order of any court or administrative agency, (ii) upon the request or demand of any regulatory agency or authority having jurisdiction over such Shareholder, (iii) to the extent compelled by legal process or required or requested pursuant to subpoena, interrogatories or other discovery requests, (iv) to the extent necessary in connection with the exercise of any remedy hereunder, (v) to other Shareholders, (vi) to such Shareholder’s Representatives that in the reasonable judgment of such Shareholder need to know such Information or (vii) to any potential Permitted Transferee in connection with a proposed Transfer of Common Shares from such Shareholder as long as such transferee agrees to be bound by the provisions of this **Section 4.03** as if a Shareholder, *provided, further, that* in the case of clause (i), (ii) or (iii), such Shareholder shall notify the other Shareholders of the proposed disclosure as far in advance of such disclosure as practicable and use reasonable efforts to ensure that any Information so disclosed is accorded confidential treatment, when and if available.

(b) The restrictions of **Section 4.03(a)** shall not apply to information that (i) is or becomes generally available to the public other than as a result of a disclosure by a Shareholder or any of its Representatives in violation of this Agreement; (ii) is or becomes available to a Shareholder or any of its Representatives on a non-confidential basis prior to its disclosure to the receiving Shareholder and any of its Representatives, (iii) is or has been independently developed or conceived by such Shareholder without use of the Company's Information or (iv) becomes available to the receiving Shareholder or any of its Representatives on a non-confidential basis from a source other than the Company, any other Shareholder or any of their respective Representatives, *provided, that* such source is not known by the recipient of the information to be bound by a confidentiality agreement with the disclosing Shareholder or any of its Representatives. Furthermore, **Section 4.03(a)** shall not restrict the Enstar Shareholder and its Affiliates from disclosing any Information required to be disclosed under applicable securities laws or the rules of any stock exchange upon which their securities are traded.

Section 4.04 Registration Rights. Upon the request of any Initial Shareholder or the Dowling Shareholder in connection with a contemplated public offering of the equity of the Company or any of its Subsidiaries that is approved in accordance with **Section 2.02(g)**, the Company shall enter into a registration rights agreement with the Initial Shareholders or the Dowling Shareholder containing customary provisions for a transaction of that type, including (a) in the case of an Initial Shareholder, demand registration rights and piggyback registration rights and (b) in the case of the Dowling Shareholder, including piggyback registration rights but excluding demand registration rights, in each case with ratable cutbacks, if necessary, regardless of the demanding party or piggyback party.

ARTICLE V INFORMATION RIGHTS

Section 5.01 Financial Statements and Reports. In addition to, and without limiting any rights that a Shareholder may have with respect to inspection of the books and records of the Company under Applicable Laws, the Company shall furnish to each Shareholder:

(a) Within 45 days after the end of each quarterly accounting period, an unaudited consolidated balance sheet as of the end of such quarterly accounting period and an unaudited related consolidated income statement, consolidated statement of shareholders' equity and consolidated statement of cash flows for such quarterly accounting period including any footnotes thereto (if any) prepared in accordance with GAAP, consistently applied, together with comparable year-to-date figures;

(b) Within 90 days after the end of each Fiscal Year (or such longer period of time as is approved by the Board), an unaudited consolidated balance sheet as of the end of such Fiscal Year and the related consolidated income statement, consolidated statement of shareholders' equity, and consolidated statement of cash flows including all footnotes thereto for such Fiscal Year prepared in accordance with GAAP, consistently applied; and

(c) Such other financial, accounting or other information relating to the Company and its Subsidiaries or their respective operations as any Initial Shareholder may reasonably request from time to time in form and substance reasonably acceptable to such requesting Shareholder.

Section 5.02 Inspection Rights.

(a) The Company shall, and shall cause its officers, Directors and employees to, (i) afford each Shareholder that, together with any Affiliates and/or Permitted Transferees, owns at least 5% of the Company's outstanding Common Shares and the Representatives of each such Shareholder, during normal business hours and upon reasonable notice, reasonable access at all reasonable times to its officers, employees, auditors, properties, offices, plants and other facilities and to all books and records, and (ii) afford such Shareholder the opportunity to consult with its officers from time to time regarding the Company's affairs, finances and accounts as each such Shareholder may reasonably request upon reasonable notice.

(b) The right set forth in **Section 5.02(a)** above shall not and is not intended to limit any rights which the Shareholders may have with respect to the books and records of the Company, or to inspect its properties or discuss its affairs, finances and accounts under the laws of the jurisdiction in which the Company is incorporated.

(c) In the event that the Trident Shareholder elects to exercise its rights under Section 5.02(a) it shall be entitled but not obliged to invite the Dowling Shareholder to participate with it for the purposes of such exercise of its rights.

ARTICLE VI
REPRESENTATIONS AND WARRANTIES

Section 6.01 Representations and Warranties. Each Shareholder, severally and not jointly, represents and warrants to the Company and each other Shareholder that:

(a) Such Shareholder (if an entity) is a corporation, company, partnership or limited liability company duly organized or formed, validly existing and in good standing under the laws of its jurisdiction of organization.

(b) Such Shareholder (if an entity) has full corporate, company or partnership power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement, the performance of its obligations hereunder and the consummation of the transactions contemplated hereby have been duly authorized (if such Shareholder is an entity) by all requisite corporate or company action of such Shareholder. Such Shareholder has duly executed and delivered this Agreement.

(c) This Agreement constitutes the legal, valid and binding obligation of such Shareholder, enforceable against such Shareholder in accordance with its terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law). The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, require no action by or in respect of, or filing with, any Governmental Authority.

(d) The execution, delivery and performance by such Shareholder of this Agreement and the consummation of the transactions contemplated hereby do not (i) conflict with or result in any violation or breach of any provision of any of the organizational documents of such Shareholder (if an entity), (ii) conflict with or result in any violation or breach of any provision of any Applicable Law or (iii) require any consent or other action by any Person under any provision of any material agreement or other instrument to which the Shareholder is a party.

(e) Except for this Agreement, the Investors Agreement by and among the Initial Shareholders, dated as of July 3, 2013 (the "**Investors Agreement**"), the Commitment Letter of each Initial Shareholder to purchase Common Shares, each dated as of July 3, 2013 (the "**Commitment Letters**"), and the Share Purchase Agreement dated as of May , 2014 by and among the Company, the Initial Shareholders and the Dowling Shareholder (the "**Share Purchase Agreement**"), such Shareholder has not entered into or agreed to be bound by any other agreements or arrangements of any kind with any other party with respect to the Common Shares, including agreements or arrangements with respect to the acquisition or disposition of the Common Shares or any interest therein or the voting of the Common Shares (whether or not such agreements and arrangements are with the Company or any other Person).

ARTICLE VII **TERM AND TERMINATION**

Section 7.01 Termination. This Agreement shall terminate upon the earliest of:

(a) the consummation of an Initial Public Offering;

(b) the consummation of a merger or other business combination involving the Company whereby the Common Shares becomes a security that is listed or admitted to trading on the NASDAQ Stock Market, the New York Stock Exchange or another national securities exchange;

-
- (c) the date on which no more than one Shareholder holds any Common Shares;
 - (d) the dissolution, liquidation or winding up of the Company; or
 - (e) upon the unanimous agreement of the Shareholders.

Section 7.02 Effect of Termination.

(a) The termination of this Agreement shall terminate all further rights and obligations of the Shareholders under this Agreement except that such termination shall not effect:

- (i) the existence of the Company;

- (ii) the obligation of any Party to pay any amounts arising on or prior to the date of termination, or as a result of or in connection with such termination;

- (iii) the rights which any Shareholder may have by operation of law as a shareholder of the Company; or

- (iv) the rights contained herein which by their terms are intended to survive termination of this Agreement.

(b) The following provisions shall survive the termination of this Agreement: this **Section 7.02** and **Section 4.03**, **Section 8.03**, **Section 8.11**, **Section 8.12** and **Section 8.13**.

ARTICLE VIII
MISCELLANEOUS

Section 8.01 Expenses. Except as otherwise expressly provided herein or in the Investors Agreement, all costs and expenses, including fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses.

Section 8.02 Release of Liability. In the event any Shareholder shall Transfer all of the Common Shares held by such Shareholder in compliance with the provisions of this Agreement without retaining any interest therein, then such Shareholder shall cease to be a party to this Agreement and shall be relieved and have no further liability arising hereunder for events occurring from and after the date of such Transfer.

Section 8.03 Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt), (b) when received by the addressee if sent by an internationally recognized overnight courier

(receipt requested), (c) on the date sent by facsimile or email of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this **Section 8.03**):

If to the Company:

c/o Enstar Group Limited
PO Box 2267
Windsor Place, 3rd Floor, 22 Queen Street
Hamilton HM JX Bermuda
Facsimile: (441) 296-7319
Email: richard.harris@enstargroup.bm
Attention: Richard J. Harris, Chief Financial Officer

If to the Enstar Shareholder:

c/o Enstar Group Limited
PO Box 2267
Windsor Place, 3rd Floor, 22 Queen Street
Hamilton HM JX Bermuda
Facsimile: (441) 296-7319
Email: richard.harris@enstargroup.bm
Attention: Richard J. Harris, Chief Financial Officer

with a copy to (which shall not constitute notice):

Drinker Biddle & Reath LLP
One Logan Square, Suite 2000
Philadelphia, PA 19103
Facsimile: (215) 988-2757
Email: robert.juelke@dbr.com
Attention: Robert C. Juelke

If to the Trident Shareholders:

c/o Stone Point Capital LLC
20 Horseneck Lane
Greenwich, CT 06830
Facsimile: (203) 862-2929
Email: slevey@stonepoint.com
Attention: Stephen Levey

with a copy to (which shall not constitute notice):

c/o Stone Point Capital LLC
20 Horseneck Lane
Greenwich, CT 06830
Facsimile: (203) 625-8357
Email: contracts@stonepoint.com
Attention: General Counsel

If to the Dowling Shareholder:

c/o Dowling Capital Partners
190 Farmington Avenue
Farmington, CT 06032
Facsimile: 888-502-8715
Email: justin@dowlingcapitalpartners.com
Attention: Justin Faust

Section 8.04 Interpretation. For purposes of this Agreement, (a) the words “include,” “includes” and “including” shall be deemed to be followed by the words “without limitation;” (b) the word “or” is not exclusive; and (c) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Agreement as a whole. The definitions given for any defined terms in this Agreement shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. Unless the context otherwise requires, references herein: (x) to Articles, Sections, and Exhibits mean the Articles and Sections of, and Exhibits attached to, this Agreement; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The Exhibits referred to herein shall be construed with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

Section 8.05 Headings. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

Section 8.06 Severability. If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto

shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

Section 8.07 Entire Agreement. This Agreement, the Organizational Documents, the Investors Agreement, the Commitment Letters and the Share Purchase Agreement constitute the sole and entire agreement of the parties with respect to the subject matter contained herein and therein, and supersede all prior and contemporaneous understandings and agreements, both written and oral, with respect to such subject matter. In the event of any inconsistency or conflict between this Agreement and any Organizational Document, the Shareholders and the Company shall, to the extent permitted by Applicable Law, amend such Organizational Document to comply with the terms of this Agreement.

Section 8.08 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 8.09 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties hereto and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other Person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 8.10 Amendment and Modification; Waiver. This Agreement may only be amended, modified or supplemented by an agreement in writing signed by each Initial Shareholder; *provided, that* any amendment that would materially and adversely affect the rights or duties of a Shareholder shall require the consent of such Shareholder. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

Section 8.11 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to any choice or conflict of law provision or rule (whether of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than those of New York.

Section 8.12 Submission to Jurisdiction; Waiver of Jury Trial.

(a) ANY LEGAL SUIT, ACTION OR PROCEEDING ARISING OUT OF OR BASED UPON THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY MAY BE INSTITUTED IN THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA OR THE COURTS OF THE STATE OF NEW YORK IN EACH CASE LOCATED IN THE CITY OF NEW YORK AND COUNTY OF NEW YORK, AND EACH PARTY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS IN ANY SUCH SUIT, ACTION OR PROCEEDING. SERVICE OF PROCESS, SUMMONS, NOTICE OR OTHER DOCUMENT BY MAIL TO SUCH PARTY'S ADDRESS SET FORTH HEREIN SHALL BE EFFECTIVE SERVICE OF PROCESS FOR ANY SUIT, ACTION OR OTHER PROCEEDING BROUGHT IN ANY SUCH COURT. THE PARTIES IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY OBJECTION TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR ANY PROCEEDING IN SUCH COURTS AND IRREVOCABLY WAIVE AND AGREE NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY TO THIS AGREEMENT CERTIFIES AND ACKNOWLEDGES THAT (I) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION, (II) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (III) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (IV) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 8.12(b).

Section 8.13 Equitable Remedies. Each party hereto acknowledges that the other parties hereto would be irreparably damaged in the event of a breach or threatened breach by such party of any of its obligations under this Agreement and hereby agrees that in the event of a breach or a threatened breach by such party of any such obligations, each of the other parties hereto shall, in addition to any and all other rights and remedies that may be available to them in respect of such breach, be entitled to an injunction from a court of competent jurisdiction (without any requirement to post bond) granting such parties specific performance by such party of its obligations under this Agreement.

Section 8.14 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, email or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

Northshore Holdings Limited

By: /s/ Richard Harris
Name: Richard Harris
Title: Director

Kenmare Holdings Ltd

By: /s/ Richard Harris
Name: Richard Harris
Title: Director

Enstar Group Limited (solely for purposes of Section 3.05)

By: /s/ Richard Harris
Name: Richard Harris
Title: CFO

Trident V, L.P.

By: Stone Point Capital LLC, its manager

By: /s/ Stephen A. Levey

Name: Stephen A. Levey

Title: Principal and Counsel

Trident V Parallel Fund, L.P.

By: Stone Point Capital LLC, its manager

By: /s/ Stephen A. Levey

Name: Stephen A. Levey

Title: Principal and Counsel

Trident V Professionals Fund, L.P.

By: Stone Point Capital LLC, its manager

By: /s/ Stephen A. Levey

Name: Stephen A. Levey

Title: Principal and Counsel

Dowling Capital Partners I, L.P.

By: Dowling Capital I, LLC, its general partner

By: Dowling Capital SLP I, LLC, its sole member

By: /s/ David K. Zwiener

Name: David K. Zwiener

Title: Managing Director

EXHIBIT A
Joinder Agreement

Reference is hereby made to the Amended and Restated Shareholders' Agreement, dated as May 8th, 2014 (as amended from time to time, the "Shareholders' Agreement"), by and among Kenmare Holdings Ltd, Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P., Dowling Capital Partners I, L.P., Northshore Holdings Limited, a Bermuda exempted company (the "Company"), and, solely for purposes of Section 3.05 thereof, Enstar Group Limited. Pursuant to and in accordance with Section 3.01(d) of the Shareholders' Agreement, the undersigned hereby agrees that upon the execution of this Joinder Agreement, it shall become a party to the Shareholders' Agreement and shall be fully bound by, and subject to, all of the covenants, terms and conditions of the Shareholders' Agreement as though an original party thereto and shall be deemed to be a Shareholder of the Company for all purposes thereof.

Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Shareholders' Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of [DATE].

Northshore Holdings Limited

By: _____
Name: _____
Title: _____

[Transferee Shareholder]

By: _____
Name: _____
Title: _____

**SAR AWARD AGREEMENT
UNDER THE ENSTAR GROUP LIMITED 2006 EQUITY INCENTIVE PLAN
(YEAR VESTING – CASH SETTLED)**

This SAR Award Agreement (this “Agreement”) is entered into as of the Grant Date (as defined below), by and between the Grantee (as defined below) and Enstar Group Limited (the “Company”). Except as otherwise defined herein, capitalized terms used in this Agreement have their respective meanings set forth in the Plan (as defined below).

WITNESSETH THAT:

WHEREAS, the Company maintains the Enstar Group Limited 2006 Equity Incentive Plan (the “Plan”), which is incorporated into and forms a part of this Agreement; and

WHEREAS, the Grantee has been selected by the committee administering the Plan (the “Committee”) to receive a Stock Appreciation Right (“SAR”) award under the Plan.

NOW, THEREFORE, IT IS AGREED, by and between the Company and the Grantee as follows:

1. Terms of Award.

- (a) The “Grantee” is [REDACTED].
- (b) The “Grant Date” is [REDACTED].
- (c) The number of ordinary shares of the Company (“Common Shares”) covered by the SAR awarded under this Agreement is [REDACTED] shares.
- (d) The Fair Market Value of a Common Share on the Grant Date is US\$ [REDACTED].
- (e) The term of the SAR commences on the Grant Date and expires upon the earlier of (i) the [REDACTED] anniversary of the Grant Date; (ii) [REDACTED] after the Grantee incurs a Termination of Service due to voluntary termination by the Grantee or termination by the Company for “Cause”; or (iii) [REDACTED] after the Grantee incurs a Termination of Service due to involuntary termination other than for “Cause.”

2. Award. Subject to the terms of this Agreement and the Plan, the Grantee is hereby granted the SAR as described in paragraph 1.

3. Vesting Schedule.

(a) Notwithstanding anything in the terms of the Plan to the contrary, the Grantee shall become vested in the SAR according to the following schedule:

<u>INSTALLMENT</u>	<u>VESTING DATE</u>
--------------------	---------------------

The Committee may at any time accelerate the time at which all or any part of the SAR may be exercised. The SAR shall not become vested on the Vesting Date: (i) if the Grantee's Termination of Service occurs on or before the Vesting Date; or (ii) if, on or before the Vesting Date, the Grantee has provided notice of his or her intention to effect a Termination of Service (even if the date of the Termination of Service occurs after the Vesting Date). Notwithstanding the foregoing provisions, the SAR shall vest as follows:

- (x) The Grantee shall become fully vested in the SAR as of the Grantee's Termination of Service if the Grantee's Termination of Service occurs by reason of the Grantee's death or disability.
- (y) The Grantee shall become fully vested in the SAR as of the Grantee's Termination of Service if he or she is involuntarily terminated by the Company other than for Cause.
- (z) The Grantee shall become fully vested in the SAR upon a Change in Control.

(b) If the Grantee's Termination of Service is the result of termination by the Company for "Cause" or a voluntary termination by the Grantee, the Grantee will forfeit any unvested portion of the SAR.

4. Exercise and Settlement of SAR. The vested portion of the SAR is exercisable by delivery of a written exercise notice, signed by the Grantee (or other proper person) at such location and in such form as the Committee shall designate, which notice shall state the election to exercise the SAR, the number of Common Shares in respect of which the SAR is being exercised, and such other information as may be required by the Committee. The SAR shall be deemed exercised upon receipt by the Committee of the exercise notice. The SAR may not be exercised for a fraction of a Common Share. The SAR may not be exercised after expiration of its term. Settlement of the exercised SAR will occur as promptly as possible. Settlement will be accomplished by the payment to the Grantee of cash having a value equal to the (i) excess, if any, of (A) the Fair Market Value of a Common Share on the date of exercise over (B) the Fair Market Value of a Common Share on the Grant Date, multiplied by (ii) the number of Common Shares with respect to which the SAR has been exercised.

5. Transferability. The Grantee shall not transfer or assign, in whole or in part, the SAR subject to this Agreement, other than (a) by will or by the laws of descent and distribution, or (b) by designation, in a manner established by the Company, of a beneficiary or beneficiaries

to exercise the rights of the Grantee and to receive any property distributable with respect to this Agreement upon the death of the Grantee upon satisfaction of the vesting conditions described in paragraph 3(a) above.

6. **Withholding**. Any tax consequences arising from the grant of this Award shall be borne solely by the Grantee. The Company and/or its Related Corporations shall withhold taxes according to the requirements under the applicable laws, rules and regulations including withholding taxes at source. The Grantee will not be entitled to receive from the Company any cash payout hereunder prior to the full payment of the Grantee's tax liabilities relating to this Award.

7. **No Common Shares**. The Company shall have no obligation to issue any Common Shares in settlement of the SAR awarded under this Agreement.

8. **Administration**. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding on all parties. Any inconsistency between this Agreement and the Plan shall be resolved in favor of the Plan.

9. **Not an Employment Contract**. This Award will not confer on the Grantee any right with respect to the continuance of employment or other service to the Company or any Related Corporation, nor will it interfere in any way with any right the Company or any Related Corporation would otherwise have to terminate or modify the terms of such Grantee's employment or other service at any time.

10. **Notices**. Any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailing but in no event later the date of actual receipt. Notices shall be directed, if to the Grantee, at the Grantee's address indicated by the Company's records, or if to the Company or the Committee, at the Company's principal executive office.

11. **Amendment**. This Agreement may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written agreement of the Grantee and the Company without the consent of any other person.

12. **Counterparts**. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

13. **Successors and Assigns**. This Agreement shall be binding upon and shall inure to the benefit of the Company and the Grantee and their respective heirs, executors, administrators, legal representatives, successors and assigns, subject to the transfer restrictions set forth in this Agreement and the Plan.

14. Entire Agreement. This Agreement and the Plan contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and therein and supersede all prior communications, representations and negotiations in respect thereto.

15. Applicable Law. This Agreement shall be construed in accordance with the laws of Bermuda (without reference to principles of conflict of laws).

IN WITNESS WHEREOF, the parties hereto have executed and delivered this SAR Award Agreement on , .

ENSTAR GROUP LIMITED

By: _____

Name: _____

Title: _____

Grantee

Address:

**RESTRICTED STOCK AWARD AGREEMENT
UNDER THE ENSTAR GROUP LIMITED 2006 EQUITY INCENTIVE PLAN
(YEAR VESTING)**

This Restricted Stock Award Agreement (this "Agreement") is entered into as of the Grant Date (as defined below), by and between the Participant (as defined below) and Enstar Group Limited (the "Company"). Except as otherwise defined herein, capitalized terms used in this Agreement have the respective meanings set forth in the Plan (as defined below).

WITNESSETH THAT:

WHEREAS, the Company maintains the Enstar Group Limited 2006 Equity Incentive Plan (the "Plan"), which is incorporated into and forms a part of this Agreement; and

WHEREAS, the Participant has been selected by the committee administering the Plan (the "Committee") to receive a Restricted Stock Award under the Plan.

NOW, THEREFORE, IT IS AGREED, by and between the Company and the Participant as follows:

1. Terms of Award.

- (a) The "Participant" is .
- (b) The "Grant Date" is .
- (c) The number of ordinary shares of the Company ("Common Shares") granted under this Agreement is shares (the "Restricted Stock").

2. Award. Subject to the terms of this Agreement and the Plan, the Participant is hereby granted the Restricted Stock as described in paragraph 1.

3. Vesting Schedule.

(a) Notwithstanding anything in the terms of the Plan to the contrary, the Participant shall become vested in the Restricted Stock according to the following schedule:

<u>INSTALLMENT</u>	<u>VESTING DATE</u>
--------------------	---------------------

An installment shall not become vested on a Vesting Date: (i) if the Participant's Termination of Service occurs on or before such Vesting Date; or (ii) if, on or before such Vesting Date, the Participant has provided notice of his or her intention to effect a Termination of Service (even if the date of the Termination of Service occurs after such Vesting Date). Notwithstanding the foregoing provisions, the Restricted Stock shall vest as follows:

- (x) The Participant shall become fully vested in the Restricted Stock as of the Participant's Termination of Service if the Participant's Termination of Service occurs by reason of the Participant's death or disability.
- (y) The Participant shall become fully vested in the Restricted Stock as of the Participant's Termination of Service if he or she is involuntarily terminated by the Company other than for Cause.
- (z) The Participant shall become fully vested in the Restricted Stock upon a Change in Control.

(b) If the Participant's Termination of Service is the result of termination by the Company for "Cause" or a voluntary termination by the Participant, the Participant will forfeit any unvested Restricted Stock.

4. Legend on Stock Certificates. The Company may require that certificates for shares distributed to the Participant pursuant to this Agreement bear any legend that counsel to the Company believes is necessary or desirable to facilitate compliance with applicable securities laws. The Company shall not be obligated to transfer any stock to the Participant free of the restrictive legend described in this Section 4 or of any other restrictive legend, if such transfer, in the opinion of counsel for the Company, would violate any applicable law or any applicable regulation or requirement of any securities exchange or similar entity.

5. Transferability. The Participant shall not transfer or assign, in whole or in part, Restricted Stock subject to this Agreement in which the Participant is not vested, other than (a) by will or by the laws of descent and distribution, or (b) by designation, in a manner established by the Company, of a beneficiary or beneficiaries to exercise the rights of the Participant and to receive any property distributable with respect to this Agreement upon the death of the Participant upon satisfaction of the vesting conditions described in paragraph 3(a) above.

6. Withholding. Any tax consequences arising from the grant of this Award shall be borne solely by the Participant. The Company and/or its Related Corporations shall withhold taxes according to the requirements under the applicable laws, rules and regulations including withholding taxes at source. The Participant will not be entitled to receive from the Company any Common Shares hereunder prior to the full payment of the Participant's tax liabilities relating to this Award. The Committee, may, in its discretion, permit the Participant to elect, subject to such conditions as the Committee shall impose, (a) to have Common Shares otherwise issuable under the Plan withheld by the Company or (b) to deliver to the Company previously acquired Common Shares (through actual tender or attestation), in either case for the greatest number of whole shares having a Fair Market Value on the date immediately preceding the date of vesting not in excess of the amount required to satisfy the withholding tax obligations.

7. Compliance with Applicable Law. Notwithstanding any other provision of this Agreement, the Company shall have no obligation to issue any shares of Restricted Stock under this Agreement if such issuance would violate any applicable law or any applicable regulation or requirement of any securities exchange or similar entity.

8. Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding on all parties. Any inconsistency between this Agreement and the Plan shall be resolved in favor of the Plan.

9. Not an Employment Contract. This Award will not confer on the Participant any right with respect to the continuance of employment or other service to the Company or any Related Corporation, nor will it interfere in any way with any right the Company or any Related Corporation would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

10. Notices. Any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailing but in no event later the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated by the Company's records, or if to the Company, at the Company's principal executive office.

11. Amendment. This Agreement may be amended in accordance with the provisions of the Plan, and may otherwise be amended by written agreement of the Participant and the Company without the consent of any other person.

12. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

13. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the Company and the Participant and their respective heirs, executors, administrators, legal representatives, successors and assigns, subject to the transfer restrictions set forth in this Agreement and the Plan.

14. Applicable Law. This Agreement shall be construed in accordance with the laws of Bermuda (without reference to principles of conflict of laws).

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Restricted Stock Award Agreement on , .

ENSTAR GROUP LIMITED

By: _____
Name:
Title:

Participant

Address:

August 11, 2014

Enstar Group Limited
3rd Floor, Windsor Place
22 Queen Street
Hamilton HM 11
Bermuda

With respect to registration statements No. 333-149551, 333-148863, 333-148862 and 333-141793 on Form S-8 and registration statement No. 333-195562 on Form S-3, we acknowledge our awareness of the use therein of our report dated August 11, 2014 related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG Audit Limited

Hamilton, Bermuda

**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: August 11, 2014

/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, Richard J. Harris, 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: August 11, 2014

/s/ RICHARD J. HARRIS

Richard J. Harris
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 June 30, 2014, 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: August 11, 2014

/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 June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Harris, 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: August 11, 2014

/S/ RICHARD J. HARRIS
Richard J. Harris
Chief Financial Officer

