Enstar Second Quarter 2023 Audio Update with Dominic Silvester and Matt Kirk

PETER KALAEV, GROUP TREASURER

Hello everyone, I'm Peter Kalaev, Group Treasurer. Thank you for listening to Enstar's Second Quarter 2023 Earnings Audio Review with CEO Dominic Silvester and CFO Matt Kirk.

Before we begin, I'd like to remind everyone that this presentation contains forward-looking statements and non-GAAP financial measures. Forward-looking statements in this presentation include, but are not limited to, statements about Enstar's expectations for future and pending transactions, run-off liability earnings, the performance of its investment portfolio and the impact of rising interest rates on Enstar's business. These statements are inherently subject to risks, uncertainties and assumptions that may cause actual results to differ materially from the statements being made as of the date of this update or in the future. Additional information regarding these statements and our non-GAAP financial measures is outlined in the text that appears below the link to this recording. With that, I will turn it over to Dominic.

DOMINIC SILVESTER, CEO

Thank you, Peter.

It was another solid quarter for Enstar as we continued to generate positive results, grow our portfolio, and strengthen our balance sheet, positioning us well for the second half of the year. A few notable highlights:

- We completed both our $2.0 billion-dollar LPT transaction with QBE, and our $179 million LPT transaction with RACQ Insurance Limited.
- We generated strong net investment income of $172 million, largely driven by improved year-over-year performance in our investment portfolio, which was supported by the impact of rising interest rates on our floating rate assets and the investment of new assets from our transactions with QBE and RACQ at over 5% yields.
- We refinanced and upsized our revolving credit agreement from $600 million to $800 million, and extended its term by five years through May 2028, thereby strengthening our balance sheet and further increasing our liquidity position. Our pipeline continues to be robust, and we remain disciplined in our search for appropriate opportunities that meet our internal hurdle for risk-adjusted returns.
- Finally, we were pleased to receive an upgrade from S&P on our long-term issuer credit rating to BBB+, which comes on the heels of last year's upgrade from Fitch. These actions by the rating agencies further validate the outstanding

performance, leadership and strong capitalization which we've consistently demonstrated over time.

As we look to the remainder of 2023, the overall macro environment continues to be challenging; however, we remain confident that our proven business model, operational excellence, and strong capital position will support both our near-term and longer-term growth.

We've built an incredible business over the past 30 years with sustainable competitive advantages, and through continual risk management and innovative capital release solutions, we expect to remain the leader in the run-off space for years to come.

Thank you again to our employees for their commitment, our partners, regulators and advisors for their trust, and our shareholders for their loyalty.

Over to you Matt.

MATTHEW KIRK, CFO

Thanks, Dominic.

Our positive momentum from the first quarter of this year continued into the second quarter, as we recorded net earnings of $21 million, compared to a net loss of $434 million in the second quarter of 2022. We generated a return on equity, or ROE, of 0.5%, and adjusted ROE of 2.1%. Adjusted ROE is a performance measure that excludes net realized and unrealized gains and losses on fixed maturity investments and funds held-directly managed, as well as other adjustments as detailed in our 10-Q.

Second quarter results were once again largely driven by positive investment performance of $159 million. Breaking down our results further, we generated $172 million of net investment income, or NII, due to the investment of consideration received from new business, reinvestment of fixed income maturities, and interest income on our approximate $3.1 billion of floating rate assets with SOFR rates now above 5%. We also experienced favourable returns on our non-core equity investments of $77 million driven by global equity market performance.

The positive non-core returns and NII were partially offset by net realized and unrealized losses on our fixed income portfolio of $90 million, driven primarily by interest rate increases.

We recorded Run-off Liability Earnings, or RLE, of $10 million, and adjusted RLE of $8 million, driven by favourable development in the 2021 acquisition year primarily from the claims experience in our workers' compensation book. As a reminder, we complete most of our annual loss reserve studies in the second half of each year and, as a result, tend to record the largest movements during that period.

This quarter, we assumed claims management control on our 2022 LPT agreement with Argo in accordance with our terms and conditions. As a result, we increased ULAE reserves by $21 million to account for the anticipated costs associated with the active claims management of this business. As part of gaining claims control, we believe we will benefit from improved RLE results over the remaining settlement period given our track record of best-in-class claims management and the benefits of the “Enstar Effect”.

We have consistently delivered book value growth over our 30-year history, and that has continued in 2023, as we delivered growth in book value per share year-to-date as of June 30th of 8.6% and 7.9% on an adjusted basis. As we noted last quarter, growth in our book value was negatively impacted year-to-date by the adoption of new accounting standards relating to Long-Duration Contracts, or LDTI, which required us to retrospectively increase opening equity by $273 million. The impact to our closing equity was offset with the novation of the affected liabilities, and therefore, the combined impact of these items is book value neutral. However, the restatement of opening equity reduced our year-to-date growth in book value per share and Adjusted book value per share. Excluding the impact of LDTI, growth in year-to-date book value per share and Adjusted book value per share would have been 15.7% and 14.9%, respectively.

Turning to our other strategic highlights, we were pleased to have completed our LPT transactions with QBE and RACQ during the quarter. To provide a bit more color, in the QBE transaction, we assumed net loss reserves of approximately $2.0 billion, while receiving consideration of $1.9 billion and recording a deferred charge asset of $179 million. For the RACQ transaction, after adjusting for claims paid as of the closing date, we assumed net loss reserves of $179 million in exchange for consideration of $179 million. These transactions are further testament to our depth of experience and our ability to structure and execute innovative solutions for our partners across jurisdictions worldwide.

Our capital and liquidity position remains strong to support future transactions. As Dominic mentioned, we refinanced and upsized our revolving credit facility this past May, which remains fully unutilized and available to us at June 30th. We ended 2022 with a group solvency ratio of 210%, and we continue to maintain a solid group solvency ratio after allocating capital to the QBE and RACQ transactions.

In conclusion, it was a strong first half of 2023 for Enstar in the face of challenging market conditions, and we remain optimistic for the second half of 2023 and beyond. As we continue to execute our strategy and build on our success as the dominant legacy player, our strong balance sheet, highly disciplined approach and best-in-class team of experts will continue to ensure that we are on the right path toward generating additional long-term value for our shareholders.

Thank you for your time and your continued interest in Enstar.