# 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 September 30, 2017
Commission File Number 001-33289

# ENSTAR GROUP LIMITED
*(Exact name of Registrant as specified in its charter)*

| **BERMUDA** | **N/A** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |


**Windsor Place, 3rd Floor, 22 Queen Street, Hamilton HM JX, Bermuda**
(Address of principal executive offices, including zip code)

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


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

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

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

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

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

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

As at November 8, 2017, the registrant had outstanding 16,423,896 voting ordinary shares and 3,004,443 non-voting convertible ordinary shares, each par value $1.00 per share.

**Enstar Group Limited**

**Quarterly Report on Form 10-Q**
**For the Period Ended September 30, 2017**

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# PART I — FINANCIAL INFORMATION

## ITEM 1. *FINANCIAL STATEMENTS*

## ENSTAR GROUP LIMITED
## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
## As of September 30, 2017 and December 31, 2016

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| | (expressed in thousands of U.S. dollars, except share data) | |
| **ASSETS** | | |
| Short-term investments, trading, at fair value | $ 254,251 | $ 222,918 |
| Short-term investments, available-for-sale, at fair value (amortized cost: 2017 — $nil; 2016 — $287) | — | 268 |
| Fixed maturities, trading, at fair value | 5,814,991 | 4,388,242 |
| Fixed maturities, available-for-sale, at fair value (amortized cost: 2017 — $220,249; 2016 — $269,577) | 222,085 | 267,499 |
| Equities, trading, at fair value | 109,650 | 95,047 |
| Other investments, at fair value | 902,864 | 937,047 |
| Other investments, at cost | 127,562 | 131,651 |
| Total investments | 7,431,403 | 6,042,672 |
| Cash and cash equivalents | 624,451 | 954,871 |
| Restricted cash and cash equivalents | 324,905 | 363,774 |
| Funds held - directly managed | 1,191,923 | 994,665 |
| Premiums receivable | 413,300 | 406,676 |
| Deferred tax assets | 14,189 | 11,374 |
| Prepaid reinsurance premiums | 243,470 | 219,115 |
| Reinsurance balances recoverable | 1,569,757 | 1,460,743 |
| Reinsurance balances recoverable, at fair value | 545,748 | — |
| Funds held by reinsured companies | 91,800 | 82,073 |
| Deferred acquisition costs | 75,117 | 58,114 |
| Goodwill and intangible assets | 181,831 | 184,855 |
| Other assets | 829,230 | 842,356 |
| Assets held for sale | 1,222,306 | 1,244,456 |
| TOTAL ASSETS | $ 14,759,430 | $ 12,865,744 |
| **LIABILITIES** | | |
| Losses and loss adjustment expenses | $ 5,760,465 | $ 5,987,867 |
| Losses and loss adjustment expenses, at fair value | 1,855,252 | — |
| Policy benefits for life and annuity contracts | 118,615 | 112,095 |
| Unearned premiums | 568,673 | 548,343 |
| Insurance and reinsurance balances payable | 254,041 | 394,021 |
| Deferred tax liabilities | 22,339 | 28,356 |
| Debt obligations | 653,454 | 673,603 |
| Other liabilities | 928,147 | 705,318 |
| Liabilities held for sale | 1,126,270 | 1,150,787 |
| TOTAL LIABILITIES | 11,287,256 | 9,600,390 |
| **COMMITMENTS AND CONTINGENCIES** | | |
| **REDEEMABLE NONCONTROLLING INTEREST** | 440,342 | 454,522 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital authorized, issued and fully paid, par value $1 each (authorized 2017 and 2016: 156,000,000): | | |
| Ordinary shares (issued and outstanding 2017: 16,390,681; 2016: 16,175,250) | 16,391 | 16,175 |
| Non-voting convertible ordinary shares: | | |
| Series C (issued and outstanding 2017: 2,599,672; 2016: 2,792,157) | 2,600 | 2,792 |
| Series E (issued and outstanding 2017: 404,771; 2016: 404,771) | 405 | 405 |
| Series C Preferred Shares (issued 2017: 388,571; 2016: 388,571) | 389 | 389 |
| Treasury shares at cost (Preferred shares 2017: 388,571; 2016: 388,571) | (421,559) | (421,559) |
| Additional paid-in capital | 1,391,229 | 1,380,109 |
| Accumulated other comprehensive loss | (5,161) | (23,549) |
| Retained earnings | 2,037,051 | 1,847,550 |
| Total Enstar Group Limited Shareholders' Equity | 3,021,345 | 2,802,312 |
| Noncontrolling interest | 10,487 | 8,520 |

| | | |
|---|---|---|
| TOTAL SHAREHOLDERS’ EQUITY | 3,031,832 | 2,810,832 |
| TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS’ EQUITY | $ 14,759,430 | $ 12,865,744 |

See accompanying notes to the unaudited condensed consolidated financial statements

## ENSTAR GROUP LIMITED

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
## For the Three and Nine Months Ended September 30, 2017 and 2016

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (expressed in thousands of U.S. dollars, except share and per share data) | | | |
| INCOME | | | | |
| Net premiums earned | $ 148,025 | $ 205,730 | $ 452,494 | $ 607,326 |
| Fees and commission income | 15,895 | 9,187 | 46,476 | 26,098 |
| Net investment income | 52,028 | 48,022 | 150,184 | 143,234 |
| Net realized and unrealized gains | 29,301 | 66,608 | 139,697 | 139,388 |
| Other income (loss) | (3,848) | 414 | 19,206 | 6,113 |
| | 241,401 | 329,961 | 808,057 | 922,159 |
| EXPENSES | | | | |
| Net incurred losses and loss adjustment expenses | 75,712 | (6,902) | 163,224 | 172,778 |
| Life and annuity policy benefits | 1,060 | 1,682 | 5,048 | 227 |
| Acquisition costs | 24,281 | 50,074 | 75,457 | 138,950 |
| General and administrative expenses | 100,325 | 103,097 | 309,283 | 300,237 |
| Interest expense | 6,410 | 5,027 | 20,851 | 15,846 |
| Net foreign exchange losses | 4,775 | 2,276 | 15,612 | 2,192 |
| Loss on sale of subsidiary | 6,740 | — | 16,349 | — |
| | 219,303 | 155,254 | 605,824 | 630,230 |
| EARNINGS BEFORE INCOME TAXES | 22,098 | 174,707 | 202,233 | 291,929 |
| INCOME TAXES | (1,432) | (8,227) | (3,234) | (23,646) |
| NET EARNINGS FROM CONTINUING OPERATIONS | 20,666 | 166,480 | 198,999 | 268,283 |
| NET EARNINGS (LOSSES) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE | 3,495 | 3,897 | (1,005) | 6,480 |
| NET EARNINGS | 24,161 | 170,377 | 197,994 | 274,763 |
| Less: Net (earnings) losses attributable to noncontrolling interest | 14,832 | (14,329) | (14,135) | (32,601) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ 38,993 | $ 156,048 | $ 183,859 | $ 242,162 |
| | | | | |
| Earnings per ordinary share attributable to Enstar Group Limited: | | | | |
| Basic: | | | | |
| Net earnings from continuing operations | $ 1.83 | $ 7.89 | $ 9.54 | $ 12.21 |
| Net earnings (losses) from discontinued operations | 0.18 | 0.20 | (0.05) | 0.34 |
| Net earnings per ordinary share | $ 2.01 | $ 8.09 | $ 9.49 | $ 12.55 |
| Diluted: | | | | |
| Net earnings from continuing operations | $ 1.81 | $ 7.82 | $ 9.47 | $ 12.13 |
| Net earnings (losses) from discontinued operations | 0.18 | 0.20 | (0.05) | 0.33 |
| Net earnings per ordinary share | $ 1.99 | $ 8.02 | $ 9.42 | $ 12.46 |
| Weighted average ordinary shares outstanding: | | | | |
| Basic | 19,392,120 | 19,299,038 | 19,384,897 | 19,292,450 |
| Diluted | 19,559,168 | 19,449,430 | 19,515,987 | 19,432,658 |

See accompanying notes to the unaudited condensed consolidated financial statements

**ENSTAR GROUP LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**For the Three and Nine Months Ended September 30, 2017 and 2016**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (expressed in thousands of U.S. dollars) | | | |
| NET EARNINGS | $ 24,161 | $ 170,377 | $ 197,994 | $ 274,763 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized holding gains on fixed income investments arising during the period | 2,219 | 1,398 | 4,598 | 10,762 |
| Reclassification adjustment for net realized gains included in net earnings | (3) | (12) | (254) | (147) |
| Unrealized gains arising during the period, net of reclassification adjustment | 2,216 | 1,386 | 4,344 | 10,615 |
| Currency translation adjustment | 11,634 | 2,803 | 15,891 | 8,856 |
| Total other comprehensive income (loss) | 13,850 | 4,189 | 20,235 | 19,471 |
| Comprehensive income | 38,011 | 174,566 | 218,229 | 294,234 |
| Less: Comprehensive income attributable to noncontrolling interest | 14,432 | (14,321) | (15,983) | (34,240) |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ 52,443 | $ 160,245 | $ 202,246 | $ 259,994 |

See accompanying notes to the unaudited condensed consolidated financial statements

## ENSTAR GROUP LIMITED

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
## For the Nine Months Ended September 30, 2017 and 2016

| | Nine Months Ended September 30, 2017 | Nine Months Ended September 30, 2016 |
|---|---|---|
| | (expressed in thousands of U.S. dollars) | |
| **Share Capital — Ordinary Shares** | | |
| Balance, beginning of period | $ 16,175 | $ 16,133 |
| Issue of shares | 24 | 38 |
| Conversion of Series C Non-Voting Convertible Ordinary Shares | 192 | — |
| Balance, end of period | $ 16,391 | $ 16,171 |
| **Share Capital — Series A Non-Voting Convertible Ordinary Shares** | | |
| Balance, beginning of period | $ — | $ 2,973 |
| Shares converted to Series C Convertible Participating Non-Voting Perpetual Preferred Stock | — | (2,973) |
| Balance, end of period | $ — | $ — |
| **Share Capital — Series C Non-Voting Convertible Ordinary Shares** | | |
| Balance, beginning of period | $ 2,792 | $ 2,726 |
| Conversion to Ordinary Shares | (192) | — |
| Balance, end of period | $ 2,600 | $ 2,726 |
| **Share Capital — Series E Non-Voting Convertible Ordinary Shares** | | |
| Balance, beginning and end of period | $ 405 | $ 405 |
| **Share Capital — Series C Convertible Participating Non-Voting Perpetual Preferred Stock** | | |
| Balance, beginning of period | $ 389 | $ — |
| Conversion of Series A Non-Voting Convertible Ordinary Stock | — | 389 |
| Balance, beginning and end of period | $ 389 | $ 389 |
| **Treasury Shares** | | |
| Balance, beginning and end of period | $ (421,559) | $ (421,559) |
| **Additional Paid-in Capital** | | |
| Balance, beginning of period | $ 1,380,109 | $ 1,373,044 |
| Issue of shares and warrants | 647 | 1,023 |
| Conversion of Series A Non-Voting Convertible Ordinary Stock | — | 2,584 |
| Amortization of equity incentive plan | 10,473 | 2,738 |
| Balance, end of period | $ 1,391,229 | $ 1,379,389 |
| **Accumulated Other Comprehensive Loss** | | |
| Balance, beginning of period | $ (23,549) | $ (35,162) |
| Currency translation adjustment | | |
| Balance, beginning of period | (18,993) | (23,790) |
| Change in currency translation adjustment | 8,440 | 8,852 |
| Reclassification to earnings on disposal of subsidiary | 7,440 | — |
| Balance, end of period | (3,113) | (14,938) |
| Defined benefit pension liability | | |
| Balance, beginning and end of period | (4,644) | (7,723) |
| Unrealized gains (losses) on investments | | |
| Balance, beginning of period | 88 | (3,649) |
| Change in unrealized gains (losses) on investments | 2,508 | 8,977 |
| Balance, end of period | 2,596 | 5,328 |
| Balance, end of period | $ (5,161) | $ (17,333) |
| **Retained Earnings** | | |
| Balance, beginning of period | $ 1,847,550 | $ 1,578,312 |
| Net earnings attributable to Enstar Group Limited | 183,859 | 242,162 |
| Accretion of redeemable noncontrolling interests to redemption value | 760 | (3,208) |
| Cumulative effect of change in accounting principle | 4,882 | — |
| Balance, end of period | $ 2,037,051 | $ 1,817,266 |
| **Noncontrolling Interest (excludes Redeemable Noncontrolling Interest)** | | |
| Balance, beginning of period | $ 8,520 | $ 3,911 |
| Contribution of capital | 22 | — |
| Net earnings attributable to noncontrolling interest | 1,945 | (434) |

| | | |
|---|---|---|
| Balance, end of period | $ 10,487 | $ 3,477 |

See accompanying notes to the unaudited condensed consolidated financial statements

**ENSTAR GROUP LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the Nine Months Ended September 30, 2017 and 2016**

| | Nine Months Ended September 30, 2017 | Nine Months Ended September 30, 2016 |
|---|---|---|
| | (expressed in thousands of U.S. dollars) | |
| OPERATING ACTIVITIES: | | |
| Net earnings | $ 197,994 | $ 274,763 |
| Net losses (earnings) from discontinued operations | 1,005 | (6,480) |
| Adjustments to reconcile net earnings to cash flows used in operating activities: | | |
| Net realized gains on sale of investments | (5,012) | (5,661) |
| Net unrealized gains on investments | (108,011) | (133,727) |
| Other non-cash items | 10,544 | 5,207 |
| Depreciation and other amortization | 28,925 | 27,511 |
| Net change in trading securities held on behalf of policyholders | 25,597 | (1,276) |
| Sales and maturities of trading securities | 4,111,406 | 2,223,274 |
| Purchases of trading securities | (5,611,677) | (2,155,120) |
| Net loss on sale of subsidiary | 16,349 | — |
| Changes in: | | |
| Reinsurance balances recoverable | (628,654) | 197,261 |
| Funds held by reinsured companies | (206,985) | (1,031,338) |
| Losses and loss adjustment expenses | 1,590,764 | 411,006 |
| Policy benefits for life and annuity contracts | 170 | (7,098) |
| Insurance and reinsurance balances payable | (140,356) | (2,331) |
| Unearned premiums | 20,330 | 6,782 |
| Other operating assets and liabilities | 215,365 | 101,780 |
| Net cash flows used in operating activities | (482,246) | (95,447) |
| INVESTING ACTIVITIES: | | |
| Acquisitions, net of cash acquired | (670) | 9,924 |
| Sale of subsidiary, net of cash sold | 19,690 | — |
| Sales and maturities of available-for-sale securities | 60,202 | 64,865 |
| Purchase of available-for-sale securities | (2,565) | (52,865) |
| Purchase of other investments | (98,203) | (47,361) |
| Redemption of other investments | 202,581 | 92,403 |
| Other investing activities | (16,831) | (2,693) |
| Net cash flows provided by investing activities | 164,204 | 64,273 |
| FINANCING ACTIVITIES: | | |
| Contribution by noncontrolling interest | 22 | — |
| Dividends paid to noncontrolling interest | (27,458) | — |
| Receipt of loans | 534,100 | 154,048 |
| Repayment of loans | (564,203) | (186,250) |
| Net cash flows used in financing activities | (57,539) | (32,202) |
| EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS | 6,292 | (3,488) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (369,289) | (66,864) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,318,645 | 1,295,169 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 949,356 | $ 1,228,305 |
| | | |
| **Supplemental Cash Flow Information:** | | |
| Income taxes paid, net of refunds | $ 11,107 | $ 17,518 |
| Interest paid | $ 18,043 | $ 14,335 |
| | | |
| **Reconciliation to Consolidated Balance Sheets:** | | |
| Cash and cash equivalents | 624,451 | 730,345 |
| Restricted cash and cash equivalents | 324,905 | 497,960 |
| **Cash, cash equivalents and restricted cash** | $ 949,356 | $ 1,228,305 |

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017 and December 31, 2016

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

## 1. SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Preparation and Consolidation*

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

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

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

### *Significant New Accounting Policies*

As a result of electing the fair value option in relation to the two new transactions described in Note 2 - "Significant New Business", we adopted a significant new accounting policy during the nine months ended September 30, 2017. Other than the policy described below, there have been no material changes to the Company’s significant accounting policies from those described in Note 2 - "Significant Accounting Policies" to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016.

*Retroactive Reinsurance - Fair Value Option*

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

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

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

*Accounting Standards Update (“ASU”) 2017-12, Targeted Improvements to Accounting for Hedging Activities*

In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-12, which amends the hedge accounting recognition and presentation requirements in Accounting Standards Codification (“ASC”) 815 - Derivatives and Hedging. FASB’s objectives in issuing the guidance are to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity’s risk management activities by better aligning the entity’s financial reporting for hedging relationships with those risk management activities, and (2) reduce the complexity of and simplify the application of hedge accounting by preparers. We have adopted this guidance early and that adoption did not have an impact on our consolidated financial statements and disclosures.

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

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

*ASU 2016-09, Improvements to Employee Share-Based Payment Accounting*

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

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

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

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

Note 2 - "Significant Accounting Policies" to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 describes accounting pronouncements that were not adopted as of December 31, 2016. Those pronouncements are not yet adopted unless discussed above in "New Accounting Standards Adopted in 2017". In addition, the following pronouncements were issued during the nine months ended September 30, 2017 and are not yet adopted.

*ASU 2017-09, Stock Compensation - Scope of Modification Accounting*

In May 2017, the FASB issued ASU 2017-09, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Accounting

Standards Codification (“ASC”) 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The ASU’s amendments are effective for interim and annual reporting periods beginning after December 15, 2017, although early adoption is permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

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

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

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

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

## 2. SIGNIFICANT NEW BUSINESS

*RSA*

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

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

*QBE*

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

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

## 3. HELD-FOR-SALE BUSINESSES AND DIVESTITURES

### *Pavonia*

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

Pavonia comprises a substantial portion of the Life and Annuities segment. We have classified the assets and liabilities of the businesses to be sold as held-for-sale. The following table summarizes the components of assets and liabilities held-for-sale on our consolidated balance sheet as at September 30, 2017 and December 31, 2016:

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Assets: | | |
| Fixed maturities, trading, at fair value | $ 280,358 | $ 326,382 |
| Fixed maturities, held-to-maturity, at amortized cost | 752,419 | 765,554 |
| Equities, trading, at fair value | 4,889 | 4,428 |
| Other investments, at fair value | 13,080 | 15,114 |
| Cash and cash equivalents | 39,325 | 18,018 |
| Restricted cash and cash equivalents | 34,582 | 5,202 |
| Deferred tax assets | 31,500 | 31,500 |
| Reinsurance balances recoverable | 16,609 | 18,029 |
| Other assets | 49,544 | 60,229 |
| Total assets held for sale | $ 1,222,306 | $ 1,244,456 |
| | | |
| Liabilities: | | |
| Policy benefits for life and annuity contracts | $ 1,120,139 | $ 1,144,850 |
| Other liabilities | 6,131 | 5,937 |
| Total liabilities held for sale | $ 1,126,270 | $ 1,150,787 |

As at September 30, 2017 and December 31, 2016, included in the table above were restricted investments of $766.4 million and $786.0 million, respectively.

The cumulative currency translation adjustments ("CTA") balance in accumulated other comprehensive income (loss) ("AOCI"), a component of shareholders' equity, included $(12.0) million and $(14.8) million as at September 30, 2017 and December 31, 2016, respectively, related to Pavonia. Upon completion of the sale, the CTA will be included in earnings as a reduction of the gain on sale.

The Pavonia business qualifies as a discontinued operation. The following table summarizes the components of net earnings (losses) from discontinued operations on the consolidated statements of earnings for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| INCOME | | | | |
| Net premiums earned | $ 14,082 | $ 17,664 | $ 42,012 | $ 52,405 |
| Net investment income | 10,077 | 9,609 | 30,383 | 28,306 |
| Net realized and unrealized gains (losses) | (233) | 3,814 | 2,543 | 6,985 |
| Other income | 384 | 195 | 1,139 | 957 |
| | 24,310 | 31,282 | 76,077 | 88,653 |
| EXPENSES | | | | |
| Life and annuity policy benefits | 15,320 | 20,071 | 60,102 | 62,284 |
| Acquisition costs | 2,412 | 2,469 | 6,728 | 7,347 |
| General and administrative expenses | 2,809 | 4,178 | 9,584 | 11,306 |
| Other expenses | 4 | 37 | (12) | 43 |
| | 20,545 | 26,755 | 76,402 | 80,980 |
| EARNINGS (LOSSES) BEFORE INCOME TAXES | 3,765 | 4,527 | (325) | 7,673 |
| INCOME TAXES | (270) | (630) | (680) | (1,193) |
| NET EARNINGS (LOSSES) FROM DISCONTINUED OPERATIONS | $ 3,495 | $ 3,897 | $ (1,005) | $ 6,480 |

The following table presents the cash flows of Pavonia for the nine months ended September 30, 2017, and 2016:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2017 | 2016 |
| Operating activities | $ 42,558 | $ (41,415) |
| Investing activities | 8,129 | 61,925 |
| Change in cash and cash equivalents | $ 50,687 | $ 20,510 |

***Laguna***

On August 29, 2017, we closed the previously-announced sale of our wholly-owned subsidiary Laguna Life DAC ("Laguna") to a subsidiary of Monument Re Limited, for a total consideration of €25.6 million (approximately $30.8 million).

Following the closing of the sale of Laguna, we recorded a loss on sale of subsidiary of $6.7 million and $16.3 million for the three and nine months ended September 30, 2017, respectively, which has been included in earnings from continuing operations before income taxes in our consolidated statement of earnings. This loss includes a CTA balance of $(6.3) million, which has been reclassified out of AOCI and included in earnings as a component of the loss on sale of Laguna during the three months ended September 30, 2017, following the closing of the sale.

## 4. INVESTMENTS

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

***Trading***

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

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| U.S. government and agency | $ 951,391 | $ 840,274 |
| Non-U.S. government | 552,474 | 267,363 |
| Corporate | 3,207,222 | 2,387,322 |
| Municipal | 88,811 | 47,181 |
| Residential mortgage-backed | 363,867 | 373,528 |
| Commercial mortgage-backed | 382,365 | 217,212 |
| Asset-backed | 523,112 | 478,280 |
| Total fixed maturity and short-term investments | 6,069,242 | 4,611,160 |
| Equities — U.S. | 109,412 | 95,047 |
| Equities — International | 238 | — |
| | $ 6,178,892 | $ 4,706,207 |

Included within residential and commercial mortgage-backed securities as at September 30, 2017 were securities issued by U.S. governmental agencies with a fair value of $228.2 million (as at December 31, 2016: $362.9 million). Included within corporate securities as at September 30, 2017 were senior secured loans of $59.3 million (as at December 31, 2016: $90.7 million).

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

| As at September 30, 2017 | Amortized Cost | Fair Value | % of Total Fair Value |
|---|---|---|---|
| One year or less | $ 539,562 | $ 539,882 | 8.9% |
| More than one year through two years | 604,417 | 604,681 | 10.0% |
| More than two years through five years | 1,215,367 | 1,224,161 | 20.2% |
| More than five years through ten years | 1,238,728 | 1,250,614 | 20.6% |
| More than ten years | 1,141,727 | 1,180,560 | 19.4% |
| Residential mortgage-backed | 360,851 | 363,867 | 6.0% |
| Commercial mortgage-backed | 386,220 | 382,365 | 6.3% |
| Asset-backed | 514,529 | 523,112 | 8.6% |
| | $ 6,001,401 | $ 6,069,242 | 100.0% |

***Available-for-sale***

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

| As at September 30, 2017 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses Non-OTTI | Fair Value |
|---|---|---|---|---|
| U.S. government and agency | $ 4,210 | $ — | $ (17) | $ 4,193 |
| Non-U.S. government | 80,026 | 1,295 | (719) | 80,602 |
| Corporate | 129,776 | 2,368 | (1,097) | 131,047 |
| Municipal | 5,827 | 17 | (11) | 5,833 |
| Residential mortgage-backed | 34 | — | — | 34 |
| Asset-backed | 376 | — | — | 376 |
| | $ 220,249 | $ 3,680 | $ (1,844) | $ 222,085 |

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

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

| As at September 30, 2017 | Amortized Cost | Fair Value | % of Total Fair Value |
|---|---|---|---|
| One year or less | $ 56,455 | $ 56,302 | 25.4% |
| More than one year through two years | 27,146 | 26,773 | 12.1% |
| More than two years through five years | 58,187 | 58,789 | 26.5% |
| More than five years through ten years | 40,660 | 41,808 | 18.8% |
| More than ten years | 37,391 | 38,003 | 17.1% |
| Residential mortgage-backed | 34 | 34 | —% |
| Asset-backed | 376 | 376 | 0.1% |
| | $ 220,249 | $ 222,085 | 100.0% |

### *Gross Unrealized Losses*

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

| | 12 Months or Greater | | Less Than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| **As at September 30, 2017** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** |
| **Fixed maturity and short-term investments, at fair value** | | | | | | |
| U.S. government and agency | $ — | $ — | $ 4,192 | $ (17) | $ 4,192 | $ (17) |
| Non-U.S. government | 11,092 | (557) | 69,511 | (162) | 80,603 | (719) |
| Corporate | 9,895 | (1,001) | 121,154 | (96) | 131,049 | (1,097) |
| Municipal | — | — | 5,832 | (11) | 5,832 | (11) |
| **Total fixed maturity and short-term investments** | $ 20,987 | $ (1,558) | $ 200,689 | $ (286) | $ 221,676 | $ (1,844) |

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

As at September 30, 2017 and December 31, 2016, the number of securities classified as available-for-sale in an unrealized loss position was 80 and 156, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was 33 and 41, respectively.

### *Other-Than-Temporary Impairment*

For the nine months ended September 30, 2017 and 2016, we did not recognize any other-than-temporary impairment losses on our available-for-sale securities. We determined that no credit losses existed as at September 30, 2017 or 2016. A description of our other-than-temporary impairment process is included in Note 2 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016. There were no changes to our process during the nine months ended September 30, 2017.

### *Credit Ratings*

The following table sets forth the credit ratings of our fixed maturity and short-term investments as at September 30, 2017:

| | 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, at fair value** | | | | | | | | | |
| U.S. government and agency | $ 958,459 | $ 955,584 | 15.2% | $ 954,138 | $ 1,446 | $ — | $ — | $ — | $ — |
| Non-U.S. government | 616,642 | 633,076 | 10.1% | 152,390 | 378,958 | 80,329 | 17,333 | 4,066 | — |
| Corporate | 3,291,514 | 3,338,269 | 53.0% | 194,084 | 451,532 | 1,732,147 | 781,363 | 178,253 | 890 |
| Municipal | 93,025 | 94,644 | 1.5% | 27,137 | 52,749 | 13,308 | 1,450 | — | — |
| Residential mortgage-backed | 360,885 | 363,901 | 5.8% | 239,450 | 21,431 | 13,431 | — | 88,248 | 1,341 |
| Commercial mortgage-backed | 386,220 | 382,365 | 6.1% | 184,200 | 33,859 | 79,627 | 60,837 | 9,909 | 13,933 |
| Asset-backed | 514,905 | 523,488 | 8.3% | 271,817 | 41,854 | 72,490 | 53,511 | 81,961 | 1,855 |
| Total | $ 6,221,650 | $ 6,291,327 | 100.0% | $ 2,023,216 | $ 981,829 | $ 1,991,332 | $ 914,494 | $ 362,437 | $ 18,019 |
| % of total fair value | | | | 32.2% | 15.6% | 31.7% | 14.5% | 5.8% | 0.2% |

### *Other Investments, at fair value*

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

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Private equities and private equity funds | $ 284,164 | $ 300,529 |
| Fixed income funds | 227,917 | 249,023 |
| Fixed income hedge funds | 70,047 | 85,976 |
| Equity funds | 241,598 | 223,571 |
| CLO equities | 55,411 | 61,565 |
| CLO equity funds | 13,042 | 15,440 |
| Private credit funds | 9,832 | — |
| Other | 853 | 943 |
| | $ 902,864 | $ 937,047 |

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

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

- *Fixed income hedge funds* invest in a diversified portfolio of debt securities. The hedge funds have imposed lock-up periods of up to three years from the time of initial investment. Once eligible, redemptions are permitted quarterly with 90 days' notice.
- *Equity funds* invest in a diversified portfolio of U.S. and international publicly-traded equity securities. The funds have liquidity terms that vary from daily to every two weeks.
- *CLO equities* comprise investments in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. CLO equities denote direct investments by us in these securities.
- *CLO equity funds* comprise two funds that invest primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans. One of the funds has a fair value of $1.5 million, part of a self-liquidating structure that is expected to pay out over one to five years. The other fund has a fair value of $11.5 million and is eligible for redemption in 2018.
- *Private credit funds* invest in direct senior or collateralized loans. The investments are subject to restrictions on redemption and sales that are determined by the governing documents and limit our ability to liquidate our positions in the funds.
- *Other* primarily comprises a fund that provides loans to educational institutions throughout the United States and its territories.

Investments of $0.4 million in fixed income hedge funds were subject to gates or side-pockets, where redemptions are subject to the sale of underlying investments. A gate is the ability to deny or delay a redemption request, whereas a side-pocket is a designated account for which the investor loses its redemption rights.

As at September 30, 2017, we had unfunded commitments to private equity funds of $167.6 million.

***Other Investments, at cost***

Our other investments carried at cost of $127.6 million as at September 30, 2017 consist of life settlement contracts. During the nine months ended September 30, 2017 and 2016, net investment income included $10.6 million and $16.8 million, respectively, related to investments in life settlements. There were impairment charges of $7.5 million and $3.6 million recognized in net realized and unrealized gains/losses during the nine months ended September 30, 2017 and 2016, respectively, related to investments in life settlements. The following table presents further information regarding our investments in life settlements as at September 30, 2017 and December 31, 2016.

| | September 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Number of Contracts | Carrying Value | Face Value (Death Benefits) | Number of Contracts | Carrying Value | Face Value (Death Benefits) |
| Remaining Life Expectancy of Insureds: | | | | | | |
| 0 – 1 year | 1 | $ 332 | $ 500 | 2 | $ 461 | $ 700 |
| 1 – 2 years | 11 | 18,087 | 28,492 | 7 | 11,396 | 18,337 |
| 2 – 3 years | 11 | 10,853 | 27,328 | 11 | 15,338 | 29,715 |
| 3 – 4 years | 16 | 13,853 | 27,807 | 17 | 17,013 | 32,189 |
| 4 – 5 years | 13 | 14,212 | 34,199 | 16 | 10,377 | 23,302 |
| Thereafter | 167 | 70,225 | 396,926 | 181 | 77,066 | 431,034 |
| Total | 219 | $ 127,562 | $ 515,252 | 234 | $ 131,651 | $ 535,277 |

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

At September 30, 2017, our best estimate of the life insurance premiums required to keep the policies in force, payable in the 12 months ending September 30, 2018 and the four succeeding years ending September 30, 2022 is $18.1 million, $18.0 million, $17.3 million, $16.0 million and $15.7 million, respectively.

### *Net Realized and Unrealized Gains*

Components of net realized and unrealized gains for the three and nine months ended September 30, 2017 and 2016 were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net realized gains (losses) on sale: | | | | |
| Gross realized gains on fixed maturity securities, available-for-sale | $ 8 | $ 12 | $ 345 | $ 391 |
| Gross realized losses on fixed maturity securities, available-for-sale | (5) | — | (91) | (244) |
| Net realized gains on fixed maturity securities, trading | 4,595 | 3,508 | 3,608 | 3,093 |
| Net realized gains on equity securities, trading | 340 | 1,393 | 1,150 | 2,421 |
| Net realized investment gains (losses) on funds held - directly managed | 422 | — | (3,720) | — |
| Total net realized gains on sale | $ 5,360 | $ 4,913 | $ 1,292 | $ 5,661 |
| Net unrealized gains (losses): | | | | |
| Fixed maturity securities, trading | $ (10,747) | $ 12,158 | $ 23,795 | $ 93,225 |
| Equity securities, trading | 2,652 | 2,801 | 13,209 | 4,930 |
| Change in fair value of other investments | 27,802 | 46,736 | 71,007 | 35,572 |
| Change in fair value of embedded derivative on funds held - directly managed | 3,967 | — | 28,807 | — |
| Change in value of fair value option on funds held - directly managed | 267 | — | 1,587 | — |
| Total net unrealized gains | 23,941 | 61,695 | 138,405 | 133,727 |
| Net realized and unrealized gains | $ 29,301 | $ 66,608 | $ 139,697 | $ 139,388 |

The gross realized gains and losses on available-for-sale securities included in the table above resulted from sales of $5.9 million and $27.5 million for the three and nine months ended September 30, 2017, respectively, and $2.4 million and $36.0 million for the three and nine months ended September 30, 2016, respectively.

### *Net Investment Income*

Major categories of net investment income for the three and nine months ended September 30, 2017 and 2016 are summarized as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Fixed maturity investments | $ 37,931 | $ 28,131 | $ 102,002 | $ 86,216 |
| Short-term investments and cash and cash equivalents | 2,048 | 891 | 7,489 | 2,903 |
| Equity securities | 1,344 | 960 | 3,207 | 3,345 |
| Other investments | 3,120 | 4,997 | 10,016 | 16,724 |
| Funds held | 247 | 7,333 | 597 | 22,570 |
| Funds held - directly managed | 8,516 | — | 24,121 | — |
| Life settlements and other | 1,443 | 7,043 | 11,026 | 17,204 |
| Gross investment income | 54,649 | 49,355 | 158,458 | 148,962 |
| Investment expenses | (2,621) | (1,333) | (8,274) | (5,728) |
| Net investment income | $ 52,028 | $ 48,022 | $ 150,184 | $ 143,234 |

***Restricted Assets***

We are required to maintain investments and cash and cash equivalents on deposit to support our insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. We also utilize trust accounts to collateralize business with our insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trusts as collateral are primarily highly rated fixed maturity securities. The carrying value of our restricted assets, including restricted cash of $324.9 million and $363.8 million, as at September 30, 2017 and December 31, 2016, respectively, was as follows:

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Collateral in trust for third party agreements | $ 3,308,768 | $ 1,975,022 |
| Assets on deposit with regulatory authorities | 586,861 | 882,400 |
| Collateral for secured letter of credit facilities | 172,838 | 177,263 |
| Funds at Lloyd's [1] | 235,171 | 220,328 |
| | $ 4,303,638 | $ 3,255,013 |

[1] Our underwriting businesses include three Lloyd's syndicates. Lloyd's determines the required capital principally through the annual business plan of each syndicate. This capital is referred to as "Funds at Lloyd's" and will be drawn upon in the event that a syndicate has a loss that cannot be funded from other sources. We have an unsecured letter of credit agreement for Funds at Lloyd's purposes ("FAL Facility") to issue up to $140.0 million of letters of credit, with a provision to increase the facility up to $200.0 million. The FAL Facility is available to satisfy our Funds at Lloyd's requirements and expires in 2021. As at September 30, 2017, our combined Funds at Lloyd's were comprised of cash and investments of $235.2 million and unsecured letters of credit of $122.0 million.

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

## 5. FUNDS HELD - DIRECTLY MANAGED

Funds held - directly managed is comprised of the following:

- The funds held balance in relation to the Allianz transaction, described in Note 4 - "Significant New Business" in our consolidated financial statements in Form 10-K for the year ended December 31, 2016, moved from a fixed crediting rate to a variable rate of return on the underlying investments on October 1, 2016. This variable return reflects the economics of the investment portfolio underlying the funds held asset and qualifies as an embedded derivative. We have recorded the aggregate of the funds held, typically held at cost, and the embedded derivative as a single amount in our consolidated balance sheet. As at September 30, 2017 and December 31, 2016, the funds held at cost had a carrying value of $1,011.4 million and $1,023.0 million, respectively, and the embedded derivative had a fair value of $0.5 million and $(28.3) million, respectively, the aggregate of which was $1,011.9 million and $994.7 million, respectively, as included in the table below.
- The fair value option was elected for the QBE reinsurance transaction described in Note 2 - "Significant New Business". As at September 30, 2017, the funds held had an amortized cost of $178.5 million and fair value of $180.0 million.

The following table presents the fair values of assets and liabilities underlying the funds held - directly managed account as at September 30, 2017 and December 31, 2016:

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Fixed maturity investments: | | |
| U.S. government and agency | $ 64,712 | $ 47,885 |
| Non-U.S. government | 2,960 | 5,961 |
| Corporate | 721,313 | 663,556 |
| Municipal | 57,964 | 38,927 |
| Residential mortgage-backed | 30,346 | — |
| Commercial mortgage-backed | 207,851 | 151,395 |
| Asset-backed | 92,281 | 79,806 |
| Total fixed maturity investments | $ 1,177,427 | $ 987,530 |
| Other assets | 14,496 | 7,135 |
| | $ 1,191,923 | $ 994,665 |

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

| As at September 30, 2017 | Amortized Cost | Fair Value | % of Total Fair Value |
|---|---|---|---|
| One year or less | $ 37,524 | $ 37,513 | 3.2% |
| More than one year through two years | 53,453 | 53,475 | 4.5% |
| More than two years through five years | 254,029 | 255,357 | 21.7% |
| More than five years through ten years | 248,673 | 249,121 | 21.2% |
| More than ten years | 247,452 | 251,483 | 21.3% |
| Residential mortgage-backed | 30,378 | 30,346 | 2.6% |
| Commercial mortgage-backed | 211,887 | 207,851 | 17.7% |
| Asset-backed | 91,956 | 92,281 | 7.8% |
| | $ 1,175,352 | $ 1,177,427 | 100.0% |

***Credit Ratings***

The following table sets forth the credit ratings of our fixed maturity investments underlying the funds held - directly managed account as at September 30, 2017:

| | Amortized Cost | Fair Value | % of Total Investments | AAA Rated | AA Rated | A Rated | BBB Rated |
|---|---|---|---|---|---|---|---|
| U.S. government and agency | $ 64,775 | $ 64,712 | 5.5% | $ 64,712 | $ — | $ — | $ — |
| Non-U.S. government | 2,976 | 2,960 | 0.3% | — | — | 2,960 | — |
| Corporate | 716,625 | 721,313 | 61.2% | 7,462 | 40,000 | 296,548 | 377,303 |
| Municipal | 56,755 | 57,964 | 4.9% | — | 20,640 | 29,960 | 7,364 |
| Residential mortgage-backed | 30,378 | 30,346 | 2.6% | 30,346 | — | — | — |
| Commercial mortgage-backed | 211,887 | 207,851 | 17.7% | 200,772 | 5,062 | 2,017 | — |
| Asset-backed | 91,956 | 92,281 | 7.8% | 88,567 | 3,714 | — | — |
| **Total** | $ 1,175,352 | $ 1,177,427 | 100.0% | $ 391,859 | $ 69,416 | $ 331,485 | $ 384,667 |
| % of total fair value | | | | 33.2% | 5.9% | 28.2% | 32.7% |

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

Net realized gains and change in fair value for the three and nine months ended September 30, 2017 are summarized as follows:

| | Three Months Ended September 30, 2017 | Nine Months Ended September 30, 2017 |
|---|---|---|
| Net realized gains (losses) on fixed maturity securities | $ 422 | $ (3,720) |
| Change in fair value of embedded derivative | 3,967 | 28,807 |
| Change in value of fair value option on funds held - directly managed | 267 | 1,587 |
| Net realized gains and change in fair value of funds held - directly managed | $ 4,656 | $ 26,674 |

There were no funds held - directly managed as at September 30, 2016 or during the nine months ended September 30, 2016.

***Net Investment Income***

Major categories of net investment income underlying the funds held - directly managed for the three and nine months ended September 30, 2017 are summarized as follows:

| | Three Months Ended September 30, 2017 | Nine Months Ended September 30, 2017 |
|---|---|---|
| Fixed maturity investments | $ 8,702 | $ 25,004 |
| Short-term investments and cash and cash equivalents | 89 | 216 |
| Gross investment income | 8,791 | 25,220 |
| Investment expenses | (275) | (1,099) |
| Investment income on funds held - directly managed | $ 8,516 | $ 24,121 |

**6. FAIR VALUE MEASUREMENTS**

***Fair Value Hierarchy***

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

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on unobservable inputs where there is little or no market activity. Unadjusted third party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

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

| | September 30, 2017 | | | |
|---|---|---|---|---|
| **Investments:** | 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 | $ — | $ 955,584 | $ — | $ 955,584 |
| Non-U.S. government | — | 633,076 | — | 633,076 |
| Corporate | — | 3,285,110 | 53,159 | 3,338,269 |
| Municipal | — | 94,644 | — | 94,644 |
| Residential mortgage-backed | — | 363,901 | — | 363,901 |
| Commercial mortgage-backed | — | 350,229 | 32,136 | 382,365 |
| Asset-backed | — | 486,799 | 36,689 | 523,488 |
| Equities — U.S. | 106,850 | 2,562 | — | 109,412 |
| Equities — International | — | 238 | — | 238 |
| Other investments | — | 318,509 | 55,724 | 374,233 |
| Total investments | $ 106,850 | $ 6,490,652 | $ 177,708 | $ 6,775,210 |
| | | | | |
| **Funds Held - Directly Managed:** | | | | |
| U.S. government and agency | $ — | $ 64,712 | $ — | $ 64,712 |
| Non-U.S. government | — | 2,960 | — | 2,960 |
| Corporate | — | 721,313 | — | 721,313 |
| Municipal | — | 57,964 | — | 57,964 |
| Residential mortgage-backed | — | 30,346 | — | 30,346 |
| Commercial mortgage-backed | — | 207,851 | — | 207,851 |
| Asset-backed | — | 92,281 | — | 92,281 |
| Other funds held assets | — | 14,496 | — | 14,496 |
| | $ — | $ 1,191,923 | $ — | $ 1,191,923 |
| | | | | |
| **Reinsurance recoverable:** | $ — | $ — | $ 545,748 | $ 545,748 |
| | | | | |
| **Other Assets:** | | | | |
| Derivative Instruments | $ — | $ 373 | $ — | $ 373 |
| | $ — | $ 373 | $ — | $ 373 |
| | | | | |
| **Losses and LAE:** | $ — | $ — | $ 1,855,252 | $ 1,855,252 |
| | | | | |
| **Other Liabilities:** | | | | |
| Derivative Instruments | $ — | $ 4,887 | $ — | $ 4,887 |
| | $ — | $ 4,887 | $ — | $ 4,887 |

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

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

| **Other investments:** | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Other investments measured at fair value | $ 374,233 | $ 434,316 |
| Other investments measured at NAV as practical expedient | 528,631 | 502,731 |
| Total other investments shown on balance sheets | $ 902,864 | $ 937,047 |

***Valuation Methodologies of Financial Instruments Measured at Fair Value***

*Fixed Maturity Investments*

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

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

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

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

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

*Equities*

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

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

*Other investments, at fair value*

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

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

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

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

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

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

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

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

*Insurance Contracts - Fair Value Option*

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

***Level 3 Measurements and Changes in Leveling***

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

*Investments*

During the nine months ended September 30, 2017, we transferred $10.7 million of corporate securities, $18.5 million of commercial mortgage-backed securities and $53.4 million of asset-backed securities from Level 2 to Level 3. These securities were transferred from Level 2 to Level 3 due to insufficient market observable inputs for the valuation of the specific assets. During the nine months ended September 30, 2017, we transferred $21.5 million of corporate securities, $0.7 million of residential mortgage-backed securities, $18.9 million of commercial mortgage-backed securities and $28.3 million of asset-backed securities from Level 3 to Level 2. The transfers from Level 3 to Level 2 were based upon us obtaining market observable information regarding the valuations of the specific assets. During the nine months ended September 30, 2017, an equity method investment of $12.4 million was reclassified from other investments to other assets resulting in a transfer out of Level 3. There were 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 September 30, 2017 and 2016:

| | Three Months Ended September 30, 2017 | | | Three Months Ended September 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Fixed Maturity Investments | Other Investments | Total | Fixed Maturity Investments | Other Investments | Total |
| Beginning fair value | $ 118,347 | $ 57,119 | $ 175,466 | $ 112,372 | $ 80,470 | $ 192,842 |
| Purchases | 18,134 | 143 | 18,277 | 24,255 | — | 24,255 |
| Sales | (5,169) | — | (5,169) | (4,309) | (1,774) | (6,083) |
| Net realized and unrealized gains (losses) | (1,613) | (1,538) | (3,151) | 2,831 | 4,265 | 7,096 |
| Net transfers out of Level 3 | (7,715) | — | (7,715) | (4,437) | — | (4,437) |
| Ending fair value | $ 121,984 | $ 55,724 | $ 177,708 | $ 130,712 | $ 82,961 | $ 213,673 |

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 nine months ended September 30, 2017 and 2016:

| | Nine Months Ended September 30, 2017 | | | Nine Months Ended September 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Fixed Maturity Investments | Other Investments | Total | Fixed Maturity Investments | Other Investments | Total |
| Beginning fair value | $ 101,439 | $ 76,878 | $ 178,317 | $ 147,144 | $ 77,016 | $ 224,160 |
| Purchases | 46,140 | 435 | 46,575 | 40,027 | 6,885 | 46,912 |
| Sales | (38,386) | — | (38,386) | (33,366) | (6,432) | (39,798) |
| Net realized and unrealized gains (losses) | (436) | (9,239) | (9,675) | (1,770) | 5,492 | 3,722 |
| Net transfers into (out of) Level 3 | 13,227 | (12,350) | 877 | (21,323) | — | (21,323) |
| Ending fair value | $ 121,984 | $ 55,724 | $ 177,708 | $ 130,712 | $ 82,961 | $ 213,673 |

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

*Insurance Contracts - Fair Value Option*

The following table presents a reconciliation of the beginning and ending balances for all insurance contracts measured at fair value on a recurring basis using Level 3 inputs during the three and nine months ended September 30, 2017:

| | Three Months Ended September 30, 2017 | | Nine Months Ended September 30, 2017 | |
|---|---|---|---|---|
| | Liability for losses and LAE | Reinsurance recoverable | Liability for losses and LAE | Reinsurance recoverable |
| Beginning fair value | $ 1,892,297 | $ 554,759 | $ — | $ — |
| Assumed business | — | — | 1,966,843 | 565,824 |
| Changes in nominal amounts: | | | | |
| Net incurred losses and LAE | (22,711) | (3,181) | (55,356) | (5,276) |
| Paid losses | (36,466) | (9,453) | (136,519) | (30,947) |
| Changes in fair value: | | | | |
| Discounted cash flows | (6,802) | 731 | 10,187 | 9,143 |
| Risk margin | (3,818) | (897) | (12,897) | (2,599) |
| Effect of exchange rate movement | 32,752 | 3,789 | 82,994 | 9,603 |
| Ending fair value | $ 1,855,252 | $ 545,748 | $ 1,855,252 | $ 545,748 |

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

Below is a summary of the quantitative information regarding the significant observable and unobservable inputs used in the internal model to determine fair value on a recurring basis as at September 30, 2017:

| September 30, 2017 | | |
|---|---|---|
| Valuation Technique | Unobservable (U) and Observable (O) Inputs | Weighted Average |
| Internal model | Corporate bond yield (O) | A rated |
| Internal model | Credit spread for non-performance risk (U) | 0.2% |
| Internal model | Risk cost of capital (U) | 5.0% |
| Internal model | Weighted average cost of capital (U) | 8.5% |
| Internal model | Duration - liability (U) | 11.46 years |
| Internal model | Duration - reinsurance recoverable (U) | 12.15 years |

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

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

- An acceleration of the estimated payment pattern would result in an increase in the fair value of the liability for losses and LAE and reinsurance recoverable. Conversely, a deceleration of the estimated payment pattern would result in a decrease in the fair value of the liability for losses and LAE and reinsurance recoverable.

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

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

As at September 30, 2017 and December 31, 2016, investments in life settlement contracts were carried at cost of $127.6 million and $131.7 million, respectively, and their fair values were $131.5 million and $129.5 million, respectively.

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

As at September 30, 2017, our 4.5% Senior Notes due 2022 were carried at amortized cost of $347.4 million while the fair value based on observable market pricing from a third party pricing service was $361.5 million. The fair value is classified as Level 2.

Disclosure of the fair value of amounts relating to insurance contracts is not required, except for those for which we elected the fair value option, as described above. As at September 30, 2017 and December 31, 2016, the fair values of our remaining assets and liabilities that are carried at cost or amortized cost approximate fair value due to their short-term nature.

## 7. DERIVATIVE INSTRUMENTS

***Foreign Currency Hedging of Net Investments***

We use foreign currency forward exchange rate contracts in qualifying hedging relationships to hedge the foreign currency exchange rate risk associated with certain of our net investments in foreign operations. At September 30, 2017 and December 31, 2016, we had forward currency contracts in place, which we had designated as hedges of the net investments in our foreign operations.

The following table presents the gross notional amounts and estimated fair values recorded within other assets and liabilities related to our foreign currency forward exchange rate contracts as at September 30, 2017 and December 31, 2016.

| | September 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | | Fair Value | | | Fair Value | |
| | Gross Notional Amount | Assets | Liabilities | Gross Notional Amount | Assets | Liabilities |
| Foreign exchange forward - AUD | $ 46,262 | $ — | $ 327 | $ 45,467 | $ 2,753 | 74 |
| Foreign exchange forward - CAD | 24,031 | 11 | 511 | 37,175 | 177 | — |
| Total qualifying hedges | $ 70,293 | $ 11 | $ 838 | $ 82,642 | $ 2,930 | $ 74 |

The following table presents the amounts of the net gains and losses deferred in the currency translation adjustment account, which is a component of AOCI, in shareholders' equity, related to our foreign currency forward exchange rate contracts for the three and nine months ended September 30, 2017 and 2016.

| | Amount of Losses Deferred in AOCI | | Amount of Gains (Losses) Deferred in AOCI | |
|---|---|---|---|---|
| | Three Months Ended September 30, 2017 | Nine Months Ended September 30, 2017 | Three Months Ended September 30, 2016 | Nine Months Ended September 30, 2016 |
| Foreign exchange forward - AUD | $ (1,243) | $ (1,805) | $ (210) | $ (210) |
| Foreign exchange forward - CAD | (1,038) | (1,154) | 234 | 234 |
| Total qualifying hedges | $ (2,281) | $ (2,959) | $ 24 | $ 24 |

As at September 30, 2017 and December 31, 2016, there were borrowings of €50.0 million (approximately $59.0 million) and €75.0 million (approximately $88.5 million), respectively, under our revolving credit facility that were designated as non-derivative hedges of our net investment in certain subsidiaries whose functional currency is denominated in Euros, as described in Note 13 - "Debt Obligations". During the three months ended September 30, 2017, we repaid €25.0 million (approximately $29.5 million) of the non-derivative hedge and reclassified the related foreign exchange losses of $1.1 million previously deferred in CTA within other comprehensive income (loss) into earnings.

***Derivatives Not Designated or Not Qualifying as Hedging Instruments***

From time to time, we may also utilize foreign currency forward contracts as part of our overall foreign currency risk management strategy or to obtain exposure to a particular financial market, as well as for yield enhancement in non-qualifying hedging relationships. We may also utilize equity call option instruments either to obtain exposure to a particular equity instrument or for yield enhancement in non-qualifying hedging relationships.

*Foreign Currency Forward Contracts*

The following table presents the gross notional amounts, estimated fair values recorded within other assets and liabilities and the amounts included in net earnings related to our non-qualifying foreign currency forward exchange rate hedging relationships as at September 30, 2017. Our non-qualifying Euro foreign currency forward exchange rate contract, with a gross notional amount of $18.2 million, expired during the nine months ended September 30, 2017 and was not renewed.

| | | September 30, 2017 Fair Value | | Losses on non-qualifying hedges charged to earnings | |
|---|---|---|---|---|---|
| | Gross Notional Amount | Assets | Liabilities | Three Months Ended September 30, 2017 | Nine Months Ended September 30, 2017 |
| Foreign exchange forward - GBP | $ 185,253 | $ 362 | $ 4,049 | $ (3,831) | $ (4,701) |
| Foreign exchange forward - EUR | — | — | — | — | (563) |
| Total non-qualifying hedges | $ 185,253 | $ 362 | $ 4,049 | $ (3,831) | $ (5,264) |

There were no such non-qualifying foreign currency forward contracts utilized during the three and nine months ended September 30, 2016 and as at December 31, 2016.

*Investments in Call Options on Equities*

During the three and nine months ended September 30, 2016, we purchased call options on equities at a cost of $5.5 million and recorded unrealized gains in net earnings of $3.7 million and $3.0 million during the three and nine months ended September 30, 2016, respectively. We did not have any equity derivative instruments as at and during the three and nine months ended September 30, 2017.

## 8. REINSURANCE BALANCES RECOVERABLE

The following tables provide the total reinsurance balances recoverable by segment as at September 30, 2017 and December 31, 2016:

| | September 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Total |
| Recoverable from reinsurers on unpaid: | | | | | |
| Outstanding losses | $ 985,298 | $ 6,715 | $ 188,324 | $ 169 | $ 1,180,506 |
| IBNR | 656,923 | 35,790 | 292,119 | — | 984,832 |
| Fair value adjustments | (17,321) | 1,702 | (2,504) | — | (18,123) |
| Fair value adjustments - fair value option | (149,045) | — | — | — | (149,045) |
| Total reinsurance reserves recoverable | 1,475,855 | 44,207 | 477,939 | 169 | 1,998,170 |
| Paid losses recoverable | 92,318 | (1,359) | 26,376 | — | 117,335 |
| | $ 1,568,173 | $ 42,848 | $ 504,315 | $ 169 | $ 2,115,505 |
| Reconciliation to Consolidated Balance Sheet: | | | | | |
| Reinsurance balances recoverable | $ 1,022,425 | $ 42,848 | $ 504,315 | $ 169 | $ 1,569,757 |
| Reinsurance balances recoverable - fair value option | 545,748 | — | — | — | 545,748 |
| Total | $ 1,568,173 | $ 42,848 | $ 504,315 | $ 169 | $ 2,115,505 |

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

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

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

As at September 30, 2017 and December 31, 2016, we had reinsurance balances recoverable of approximately $2.1 billion and $1.5 billion, respectively. The increase of $654.8 million in reinsurance balances recoverable was primarily a result of the QBE and RSA reinsurance transactions, which closed in the first quarter of 2017, and the impact of the recent hurricane losses on Atrium and StarStone, partially offset by reserve reductions in our Non-life Run-off segment and cash collections made during the nine months ended September 30, 2017.

***Top Ten Reinsurers***

| | September 30, 2017 | | | | | | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Total | % of Total | Non-life Run-off | Atrium | StarStone | Life and Annuities | Total | % of Total |
| Top ten reinsurers | $ 1,214,731 | $ 27,908 | $ 328,967 | $ — | $ 1,571,606 | 74.3% | $ 737,074 | $ 23,245 | $ 226,283 | $ — | $ 986,602 | 67.6% |
| Other reinsurers > $1 million | 336,090 | 13,375 | 171,492 | — | 520,957 | 24.6% | 301,856 | 4,827 | 152,341 | — | 459,024 | 31.4% |
| Other reinsurers < $1 million | 17,352 | 1,565 | 3,856 | 169 | 22,942 | 1.1% | 9,183 | 856 | 4,119 | 959 | 15,117 | 1.0% |
| Total | $ 1,568,173 | $ 42,848 | $ 504,315 | $ 169 | $ 2,115,505 | 100.0% | $ 1,048,113 | $ 28,928 | $ 382,743 | $ 959 | $ 1,460,743 | 100.0% |

Six of the top ten external reinsurers, as at September 30, 2017 and December 31, 2016, were rated A- or better, with the remaining four being non-rated reinsurers from which $662.8 million was recoverable (December 31, 2016: $512.2 million recoverable from four reinsurers). For the four non-rated reinsurers, including KaylaRe Ltd., we hold security in the form of pledged assets in trust or letters of credit issued to us in the full amount of the recoverable. As at September 30, 2017, reinsurance balances recoverable of $331.0 million (December 31, 2016: $241.7 million) related to KaylaRe Ltd., $215.2 million (December 31, 2016: $154.9 million) related to Lloyd’s syndicates and $318.4 million (December 31, 2016: $67.3 million) related to Hannover Ruck SE, all of which represented 10% or more of total reinsurance balances recoverable. Lloyd’s is rated A+ by Standard & Poor’s and A by A.M. Best, and Hannover Ruck SE is rated AA- by Standard & Poor’s and A+ by A.M. Best.

***Provisions for Uncollectible Reinsurance Recoverables***

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

The following table shows our reinsurance balances recoverable by rating of reinsurer and our provisions for uncollectible reinsurance balances recoverable ("provisions for bad debt") as at September 30, 2017 and December 31, 2016. The provisions for bad debt all relate to the Non-life Run-off segment.

| | September 30, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross | Provisions for Bad Debt | Net | Provisions as a % of Gross | Gross | Provisions for Bad Debt | Net | Provisions as a % of Gross |
| Reinsurers rated A- or above | $ 1,353,814 | $ 53,419 | $ 1,300,395 | 3.9% | $ 892,776 | $ 35,184 | $ 857,592 | 3.9% |
| Reinsurers rated below A-, secured | 760,682 | — | 760,682 | —% | 544,894 | — | 544,894 | —% |
| Reinsurers rated below A-, unsecured | 171,284 | 116,856 | 54,428 | 68.2% | 197,589 | 139,332 | 58,257 | 70.5% |
| Total | $ 2,285,780 | $ 170,275 | $ 2,115,505 | 7.4% | $ 1,635,259 | $ 174,516 | $ 1,460,743 | 10.7% |

## 9. LOSSES AND LOSS ADJUSTMENT EXPENSES

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

The following table summarizes the liability for losses and LAE by segment as at September 30, 2017 and December 31, 2016:

| | September 30, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Total | Non-life Run-off | Atrium | StarStone | Total |
| Outstanding losses | $ 3,305,988 | $ 68,526 | $ 529,431 | $ 3,903,945 | $ 2,697,737 | $ 67,379 | $ 502,115 | $ 3,267,231 |
| IBNR | 3,330,260 | 166,615 | 709,450 | 4,206,325 | 2,153,994 | 132,240 | 558,130 | 2,844,364 |
| Fair value adjustments | (134,305) | 10,579 | (616) | (124,342) | (135,368) | 12,503 | (863) | (123,728) |
| Fair value adjustments - fair value option | (370,211) | — | — | (370,211) | — | — | — | — |
| Total | $ 6,131,732 | $ 245,720 | $ 1,238,265 | $ 7,615,717 | $ 4,716,363 | $ 212,122 | $ 1,059,382 | $ 5,987,867 |

| | |
|---|---|
| Reconciliation to Consolidated Balance Sheet: | |
| Loss and loss adjustment expenses | $ 5,760,465 |
| Loss and loss adjustment expenses, at fair value | 1,855,252 |
| Total | $ 7,615,717 |

The overall increase in the liability for losses and LAE between December 31, 2016 and September 30, 2017 was primarily attributable to the assumed reinsurance agreements with RSA and QBE in our Non-life Run-off segment, for which we have elected the fair value option, as described in Note 2 - "Significant New Business."

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance as at beginning of period | $ 7,641,384 | $ 6,433,845 | $ 5,987,867 | $ 5,720,149 |
| Less: reinsurance reserves recoverable | 1,923,962 | 1,243,782 | 1,388,193 | 1,360,382 |
| Less: deferred charges on retroactive reinsurance | 88,475 | 247,272 | 94,551 | 255,911 |
| Net balance as at beginning of period | 5,628,947 | 4,942,791 | 4,505,123 | 4,103,856 |
| Net incurred losses and LAE: | | | | |
| Current period | 147,846 | 128,426 | 314,791 | 370,362 |
| Prior periods | (72,134) | (135,328) | (151,567) | (197,584) |
| Total net incurred losses and LAE | 75,712 | (6,902) | 163,224 | 172,778 |
| Net paid losses: | | | | |
| Current period | (15,928) | (32,510) | (40,820) | (54,866) |
| Prior periods | (215,173) | (158,367) | (670,117) | (547,780) |
| Total net paid losses | (231,101) | (190,877) | (710,937) | (602,646) |
| Effect of exchange rate movement | 55,712 | 2,147 | 139,448 | (21,099) |
| Acquired on purchase of subsidiaries | 3,282 | — | 3,282 | 10,019 |
| Assumed business | — | 99,168 | 1,432,412 | 1,183,419 |
| Net balance as at September 30 | 5,532,552 | 4,846,327 | 5,532,552 | 4,846,327 |
| Plus: reinsurance reserves recoverable | 1,998,001 | 1,198,605 | 1,998,001 | 1,198,605 |
| Plus: deferred charges on retroactive reinsurance | 85,164 | 100,637 | 85,164 | 100,637 |
| Balance as at September 30 | $ 7,615,717 | $ 6,145,569 | $ 7,615,717 | $ 6,145,569 |

The tables below provide the net incurred losses and LAE in the Non-life Run-off, Atrium and StarStone segments for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, 2017 | | | | Three Months Ended September 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Total | Non-life Run-off | Atrium | StarStone | Total |
| Net losses paid | $ 136,014 | $ 14,131 | $ 80,956 | $ 231,101 | $ 109,310 | $ 13,541 | $ 68,026 | $ 190,877 |
| Net change in case and LAE reserves | (66,392) | 239 | (934) | (67,087) | (323,246) | (2,117) | 16,899 | (308,464) |
| Net change in IBNR reserves | (120,766) | 22,526 | 30,173 | (68,067) | (59,857) | 3,624 | 18,861 | (37,372) |
| Amortization of deferred charges | 3,311 | — | — | 3,311 | 154,102 | — | — | 154,102 |
| Increase (reduction) in estimates of net ultimate losses | (47,833) | 36,896 | 110,195 | 99,258 | (119,691) | 15,048 | 103,786 | (857) |
| Increase (reduction) in provisions for bad debt | — | 242 | — | 242 | (502) | — | — | (502) |
| Increase (reduction) in provisions for unallocated LAE | (16,038) | 63 | 1,247 | (14,728) | (10,806) | 20 | 930 | (9,856) |
| Amortization of fair value adjustments | 3,493 | (1,928) | (121) | 1,444 | 5,880 | (1,245) | (322) | 4,313 |
| Changes in fair value - fair value option | (10,504) | — | — | (10,504) | — | — | — | — |
| Net incurred losses and LAE | $ (70,882) | $ 35,273 | $ 111,321 | $ 75,712 | $ (125,119) | $ 13,823 | $ 104,394 | $ (6,902) |

| | Nine Months Ended September 30, 2017 | | | | Nine Months Ended September 30, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Total | Non-life Run-off | Atrium | StarStone | Total |
| Net losses paid | $ 436,998 | $ 40,625 | $ 233,314 | $ 710,937 | $ 384,679 | $ 33,812 | $ 184,155 | $ 602,646 |
| Net change in case and LAE reserves | (276,935) | (288) | (2,148) | (279,371) | (506,591) | (1,854) | 51,290 | (457,155) |
| Net change in IBNR reserves | (261,724) | 17,179 | 13,371 | (231,174) | (199,756) | 17,053 | 63,233 | (119,470) |
| Amortization of deferred charges | 9,387 | — | — | 9,387 | 162,741 | — | — | 162,741 |
| Increase (reduction) in estimates of net ultimate losses | (92,274) | 57,516 | 244,537 | 209,779 | (158,927) | 49,011 | 298,678 | 188,762 |
| Increase (reduction) in provisions for bad debt | (735) | 242 | — | (493) | (7,132) | — | — | (7,132) |
| Increase (reduction) in provisions for unallocated LAE | (41,296) | — | 1,533 | (39,763) | (25,167) | 154 | 2,698 | (22,315) |
| Amortization of fair value adjustments | 5,518 | (1,808) | (755) | 2,955 | 17,863 | (2,620) | (1,780) | 13,463 |
| Changes in fair value - fair value option | (9,254) | — | — | (9,254) | — | — | — | — |
| Net incurred losses and LAE | $ (138,041) | $ 55,950 | $ 245,315 | $ 163,224 | $ (173,363) | $ 46,545 | $ 299,596 | $ 172,778 |

***Non-Life Run-off Segment***

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three and nine months ended September 30, 2017 and 2016 for the Non-life Run-off segment:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance as at beginning of period | $ 6,317,279 | $ 5,226,127 | $ 4,716,363 | $ 4,585,454 |
| Less: reinsurance reserves recoverable | 1,500,557 | 927,725 | 1,000,953 | 1,034,747 |
| Less: deferred charges on retroactive insurance | 88,475 | 247,272 | 94,551 | 255,911 |
| Net balance as at beginning of period | 4,728,247 | 4,051,130 | 3,620,859 | 3,294,796 |
| Net incurred losses and LAE: | | | | |
| Current period | 30 | 2,937 | 1,205 | 9,524 |
| Prior periods | (70,912) | (128,056) | (139,246) | (182,887) |
| Total net incurred losses and LAE | (70,882) | (125,119) | (138,041) | (173,363) |
| Net paid losses: | | | | |
| Current period | (33) | (2,050) | (404) | (6,098) |
| Prior periods | (135,981) | (107,260) | (436,594) | (378,581) |
| Total net paid losses | (136,014) | (109,310) | (436,998) | (384,679) |
| Effect of exchange rate movement | 46,080 | 2,938 | 120,592 | (11,385) |
| Acquired on purchase of subsidiaries | 3,282 | — | 3,282 | 10,019 |
| Assumed business | — | 99,168 | 1,401,019 | 1,183,419 |
| Net balance as at September 30 | 4,570,713 | 3,918,807 | 4,570,713 | 3,918,807 |
| Plus: reinsurance reserves recoverable | 1,475,855 | 879,257 | 1,475,855 | 879,257 |
| Plus: deferred charges on retroactive reinsurance | 85,164 | 100,637 | 85,164 | 100,637 |
| Balance as at September 30 | $ 6,131,732 | $ 4,898,701 | $ 6,131,732 | $ 4,898,701 |

Net incurred losses and LAE in the Non-life Run-off segment for the three months ended September 30, 2017 and 2016 were as follows:

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $ 135,981 | $ 33 | $ 136,014 | $ 107,260 | $ 2,050 | $ 109,310 |
| Net change in case and LAE reserves | (66,376) | (16) | (66,392) | (323,301) | 55 | (323,246) |
| Net change in IBNR reserves | (120,614) | (152) | (120,766) | (60,634) | 777 | (59,857) |
| Amortization of deferred charges | 3,311 | — | 3,311 | 154,102 | — | 154,102 |
| Increase (reduction) in estimates of net ultimate losses | (47,698) | (135) | (47,833) | (122,573) | 2,882 | (119,691) |
| Reduction in provisions for bad debt | — | — | — | (502) | — | (502) |
| Increase (reduction) in provisions for unallocated LAE | (16,203) | 165 | (16,038) | (10,861) | 55 | (10,806) |
| Amortization of fair value adjustments | 3,493 | — | 3,493 | 5,880 | — | 5,880 |
| Changes in fair value - fair value option | (10,504) | — | (10,504) | — | — | — |
| Net incurred losses and LAE | $ (70,912) | $ 30 | $ (70,882) | $ (128,056) | $ 2,937 | $ (125,119) |

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

*Three Months Ended September 30, 2017*

The reduction in net incurred losses and LAE for the three months ended September 30, 2017 of $70.9 million included net incurred losses and LAE of $0.03 million related to current period net earned premium, related to the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $0.03 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $70.9 million, which was attributable to a reduction in estimates of net ultimate losses of $47.7 million, a reduction in provisions for unallocated LAE of $16.2 million relating to 2017 run-off activity and a decrease in fair value of $10.5 million related to our assumed retroactive reinsurance agreements with RSA and QBE completed during the first quarter and for which we have elected the fair value option, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired of $3.5 million. The reduction in estimates of net ultimate losses for the three months ended September 30, 2017 included a net change in case and IBNR reserves of $187.0 million. The reduction of estimates in net ultimate losses for the three months ended September 30, 2017 was reduced by amortization of the deferred charge of $3.3 million.

*Three Months Ended September 30, 2016*

The reduction in net incurred losses and LAE for the three months ended September 30, 2016 of $125.1 million included net incurred losses and LAE of $2.9 million related to current period net earned premium of $1.6 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $2.9 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $128.1 million, which was attributable to a reduction in estimates of net ultimate losses of $122.6 million, a reduction in provisions for bad debt of $0.5 million, and a reduction in provisions for unallocated LAE of $10.9 million, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $5.9 million, relating to 2016 run-off activity. The reduction in estimates of net ultimate losses for the three months ended September 30, 2016 included a net change in case and IBNR reserves of $383.9 million. The reduction of estimates in net ultimate losses for the three months ended September 30, 2016 was reduced by amortization of the deferred charge of $154.1 million.

The reduction in provisions for bad debt of $0.5 million was a result of the collection of certain reinsurance recoverables against which bad debt provisions had been provided in earlier periods.

Net incurred losses and LAE in the Non-life Run-off segment for the nine months ended September 30, 2017 and 2016 were as follows:

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $ 436,594 | $ 404 | $ 436,998 | $ 378,581 | $ 6,098 | $ 384,679 |
| Net change in case and LAE reserves | (276,903) | (32) | (276,935) | (507,102) | 511 | (506,591) |
| Net change in IBNR reserves | (262,296) | 572 | (261,724) | (202,387) | 2,631 | (199,756) |
| Amortization of deferred charges | 9,387 | — | 9,387 | 162,741 | — | 162,741 |
| Increase (reduction) in estimates of net ultimate losses | (93,218) | 944 | (92,274) | (168,167) | 9,240 | (158,927) |
| Reduction in provisions for bad debt | (735) | — | (735) | (7,132) | — | (7,132) |
| Increase (reduction) in provisions for unallocated LAE | (41,557) | 261 | (41,296) | (25,451) | 284 | (25,167) |
| Amortization of fair value adjustments | 5,518 | — | 5,518 | 17,863 | — | 17,863 |
| Changes in fair value - fair value option | (9,254) | — | (9,254) | — | — | — |
| Net incurred losses and LAE | $ (139,246) | $ 1,205 | $ (138,041) | $ (182,887) | $ 9,524 | $ (173,363) |

*Nine Months Ended September 30, 2017*

The reduction in net incurred losses and LAE for the nine months ended September 30, 2017 of $138.0 million included net incurred losses and LAE of $1.2 million related to current period net earned premium, related to the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $1.2 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $139.2 million, which was attributable to a reduction in estimates of net ultimate losses of $93.2 million, a reduction in provisions for bad debt of $0.7 million, a reduction in provisions for unallocated LAE of $41.6 million and a decrease in fair value of $9.3 million related to our assumed retroactive reinsurance agreements with RSA and QBE completed during the period and for which we have elected the fair value option, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired of $5.5 million. The reduction in estimates of net ultimate losses for the nine months ended September 30, 2017 included a net change in case and IBNR reserves of $539.2 million. The reduction of estimates in net ultimate losses for the nine months ended September 30, 2017 was reduced by amortization of the deferred charge of $9.4 million.

The reduction in provisions for bad debt of $0.7 million was a result of the collection of dividends from insolvent reinsurer estates.

*Nine Months Ended September 30, 2016*

The reduction in net incurred losses and LAE for the nine months ended September 30, 2016 of $173.4 million included net incurred losses and LAE of $9.5 million related to current period net earned premium of $6.6 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $9.5 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $182.9 million, which was attributable to a reduction in estimates of net ultimate losses of $168.2 million, a reduction in provisions for bad debt of $7.1 million and a reduction in provisions for unallocated LAE of $25.5 million, relating to 2016 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $17.9 million. The reduction in estimates of net ultimate losses for the nine months ended September 30, 2016 included a net change in case and IBNR reserves of $709.5 million. The reduction of estimates in net ultimate losses for the nine months ended September 30, 2016 was reduced by amortization of the deferred charge of $162.7 million.

***Atrium***

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Balance as at beginning of period | $ 208,646 | $ 213,224 | $ 212,122 | $ 201,017 |
| Less: reinsurance reserves recoverable | 29,749 | 26,856 | 30,009 | 25,852 |
| Net balance as at beginning of period | 178,897 | 186,368 | 182,113 | 175,165 |
| Net incurred losses and LAE: | | | | |
| Current period | 37,284 | 19,843 | 66,563 | 56,474 |
| Prior periods | (2,011) | (6,020) | (10,613) | (9,929) |
| Total net incurred losses and LAE | 35,273 | 13,823 | 55,950 | 46,545 |
| Net paid losses: | | | | |
| Current period | (5,139) | (6,804) | (14,799) | (14,297) |
| Prior periods | (8,992) | (6,737) | (25,826) | (19,515) |
| Total net paid losses | (14,131) | (13,541) | (40,625) | (33,812) |
| Effect of exchange rate movement | 1,474 | (341) | 4,075 | (1,589) |
| Net balance as at September 30 | 201,513 | 186,309 | 201,513 | 186,309 |
| Plus: reinsurance reserves recoverable | 44,207 | 28,653 | 44,207 | 28,653 |
| Balance as at September 30 | $ 245,720 | $ 214,962 | $ 245,720 | $ 214,962 |

Net incurred losses and LAE in the Atrium segment for the three and nine months ended September 30, 2017 and 2016 were as follows:

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $ 8,992 | $ 5,139 | $ 14,131 | $ 6,737 | $ 6,804 | $ 13,541 |
| Net change in case and LAE reserves | (2,781) | 3,020 | 239 | (3,175) | 1,058 | (2,117) |
| Net change in IBNR reserves | (6,272) | 28,798 | 22,526 | (8,203) | 11,827 | 3,624 |
| Increase (reduction) in estimates of net ultimate losses | (61) | 36,957 | 36,896 | (4,641) | 19,689 | 15,048 |
| Increase (reduction) in provisions for bad debt | (96) | 338 | 242 | — | — | — |
| Increase (reduction) in provisions for unallocated LAE | 74 | (11) | 63 | (134) | 154 | 20 |
| Amortization of fair value adjustments | (1,928) | — | (1,928) | (1,245) | — | (1,245) |
| Net incurred losses and LAE | $ (2,011) | $ 37,284 | $ 35,273 | $ (6,020) | $ 19,843 | $ 13,823 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $ 25,826 | $ 14,799 | $ 40,625 | $ 19,515 | $ 14,297 | $ 33,812 |
| Net change in case and LAE reserves | (7,904) | 7,616 | (288) | (10,526) | 8,672 | (1,854) |
| Net change in IBNR reserves | (26,631) | 43,810 | 17,179 | (15,975) | 33,028 | 17,053 |
| Increase (reduction) in estimates of net ultimate losses | (8,709) | 66,225 | 57,516 | (6,986) | 55,997 | 49,011 |
| Increase (reduction) in provisions for bad debt | (96) | 338 | 242 | — | — | — |
| Increase (reduction) in provisions for unallocated LAE | — | — | — | (323) | 477 | 154 |
| Amortization of fair value adjustments | (1,808) | — | (1,808) | (2,620) | — | (2,620) |
| Net incurred losses and LAE | $ (10,613) | $ 66,563 | $ 55,950 | $ (9,929) | $ 56,474 | $ 46,545 |

The increase in estimates of net ultimate losses in the current period for the three and nine months ended September 30, 2017 was primarily due to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, as well at the Mexico earthquake.

***StarStone***

The table below provides a reconciliation of the beginning and ending liability for losses and LAE for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Balance as at beginning of period | $ 1,115,459 | $ 994,494 | $ 1,059,382 | $ 933,678 |
| Less: reinsurance reserves recoverable | 393,656 | 289,201 | 357,231 | 299,783 |
| Net balance as at beginning of period | 721,803 | 705,293 | 702,151 | 633,895 |
| Net incurred losses and LAE: | | | | |
| Current period | 110,532 | 105,646 | 247,023 | 304,364 |
| Prior periods | 789 | (1,252) | (1,708) | (4,768) |
| Total net incurred losses and LAE | 111,321 | 104,394 | 245,315 | 299,596 |
| Net paid losses: | | | | |
| Current period | (10,756) | (23,656) | (25,617) | (34,471) |
| Prior periods | (70,200) | (44,370) | (207,697) | (149,684) |
| Total net paid losses | (80,956) | (68,026) | (233,314) | (184,155) |
| Effect of exchange rate movement | 8,158 | (450) | 14,781 | (8,125) |
| Assumed business | — | — | 31,393 | — |
| Net balance as at September 30 | 760,326 | 741,211 | 760,326 | 741,211 |
| Plus: reinsurance reserves recoverable | 477,939 | 290,695 | 477,939 | 290,695 |
| Balance as at September 30 | $ 1,238,265 | $ 1,031,906 | $ 1,238,265 | $ 1,031,906 |

Net incurred losses and LAE in the StarStone segment for the three and nine months ended September 30, 2017 and 2016 were as follows:

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | | **2016** | | |
| | **Prior Period** | **Current Period** | **Total** | **Prior Period** | **Current Period** | **Total** |
| Net losses paid | $ 70,200 | $ 10,756 | $ 80,956 | $ 44,370 | $ 23,656 | $ 68,026 |
| Net change in case and LAE reserves | (14,037) | 13,103 | (934) | (8,308) | 25,207 | 16,899 |
| Net change in IBNR reserves | (54,400) | 84,573 | 30,173 | (36,173) | 55,034 | 18,861 |
| Increase (reduction) in estimates of net ultimate losses | 1,763 | 108,432 | 110,195 | (111) | 103,897 | 103,786 |
| Increase (reduction) in provisions for unallocated LAE | (853) | 2,100 | 1,247 | (819) | 1,749 | 930 |
| Amortization of fair value adjustments | (121) | — | (121) | (322) | — | (322) |
| Net incurred losses and LAE | $ 789 | $ 110,532 | $ 111,321 | $ (1,252) | $ 105,646 | $ 104,394 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Period | Current Period | Total | Prior Period | Current Period | Total |
| Net losses paid | $ 207,697 | $ 25,617 | $ 233,314 | $ 149,684 | $ 34,471 | $ 184,155 |
| Net change in case and LAE reserves | (55,501) | 53,353 | (2,148) | (30,410) | 81,700 | 51,290 |
| Net change in IBNR reserves | (149,165) | 162,536 | 13,371 | (119,407) | 182,640 | 63,233 |
| Increase (reduction) in estimates of net ultimate losses | 3,031 | 241,506 | 244,537 | (133) | 298,811 | 298,678 |
| Increase (reduction) in provisions for unallocated LAE | (3,984) | 5,517 | 1,533 | (2,855) | 5,553 | 2,698 |
| Amortization of fair value adjustments | (755) | — | (755) | (1,780) | — | (1,780) |
| Net incurred losses and LAE | $ (1,708) | $ 247,023 | $ 245,315 | $ (4,768) | $ 304,364 | $ 299,596 |

The estimates of net ultimate losses in the current period for the three and nine months ended September 30, 2017 were impacted by the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, partially offset by the 35% whole account quota share reinsurance agreement with KaylaRe.

## 10. POLICY BENEFITS FOR LIFE AND ANNUITY CONTRACTS

Policy benefits for life contracts as at September 30, 2017 and December 31, 2016 were $118.6 million and $112.1 million, respectively. The annuity amounts presented in previous financial statements are now classified as held-for-sale liabilities. Refer to Note 2 - "Significant Accounting Policies - (d) Policy Benefits for Life and Annuity Contracts" of the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 for a description of the assumptions used and the process for establishing our assumptions and estimates.

## 11. PREMIUMS WRITTEN AND EARNED

The following table provides a summary of net premiums written and earned in our Non-life Run-off, Atrium, StarStone and Life and Annuities segments for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | Premiums Written | Premiums Earned | Premiums Written | Premiums Earned | Premiums Written | Premiums Earned | Premiums Written | Premiums Earned |
| *Non-life Run-off* | | | | | | | | |
| Gross | $ 11,751 | $ 9,345 | $ 2,066 | $ 2,054 | $ 13,956 | $ 15,353 | $ 15,829 | $ 19,217 |
| Ceded | (284) | (2,930) | (2,293) | (757) | (503) | (5,497) | (8,009) | (8,009) |
| Net | $ 11,467 | $ 6,415 | $ (227) | $ 1,297 | $ 13,453 | $ 9,856 | $ 7,820 | $ 11,208 |
| *Atrium* | | | | | | | | |
| Gross | $ 36,377 | $ 39,591 | $ 35,038 | $ 36,401 | $ 117,355 | $ 111,633 | $ 114,337 | $ 107,743 |
| Ceded | (10,388) | (6,818) | 1,363 | (3,851) | (18,120) | (14,260) | (6,594) | (11,524) |
| Net | $ 25,989 | $ 32,773 | $ 36,401 | $ 32,550 | $ 99,235 | $ 97,373 | $ 107,743 | $ 96,219 |
| *StarStone* | | | | | | | | |
| Gross | $ 200,007 | $ 217,833 | $ 192,077 | $ 214,430 | $ 651,107 | $ 636,137 | $ 632,489 | $ 617,094 |
| Ceded | (102,958) | (110,183) | (31,830) | (43,837) | (319,658) | (294,528) | (139,760) | (121,384) |
| Net | $ 97,049 | $ 107,650 | $ 160,247 | $ 170,593 | $ 331,449 | $ 341,609 | $ 492,729 | $ 495,710 |
| *Life and Annuities* | | | | | | | | |
| Life | $ 1,671 | $ 1,187 | $ 1,785 | $ 1,290 | $ 3,646 | $ 3,656 | $ 4,666 | $ 4,189 |
| Total | $ 136,176 | $ 148,025 | $ 198,206 | $ 205,730 | $ 447,783 | $ 452,494 | $ 612,958 | $ 607,326 |

## 12. GOODWILL, INTANGIBLE ASSETS AND DEFERRED CHARGE

The following table presents a reconciliation of the beginning and ending goodwill, intangible assets and the deferred charges during the nine months ended September 30, 2017:

| | Goodwill | Intangible assets with a definite life - Other | Intangible assets with an indefinite life | Total | Intangible assets with a definite life - FVA | Other assets - Deferred Charges |
|---|---|---|---|---|---|---|
| Balance as at December 31, 2016 | $ 73,071 | $ 24,753 | $ 87,031 | $ 184,855 | $ 145,158 | $ 94,551 |
| Acquired during the period | — | — | — | — | 418 | — |
| Amortization | — | (3,024) | — | (3,024) | (2,329) | (9,387) |
| Balance as at September 30, 2017 | $ 73,071 | $ 21,729 | $ 87,031 | $ 181,831 | $ 143,247 | $ 85,164 |

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

Intangible asset amortization for the three and nine months ended September 30, 2017 was $3.1 million and $5.4 million, respectively, compared to $7.2 million and $22.6 million for the comparative periods in 2016.

The gross carrying value, accumulated amortization and net carrying value of intangible assets by type and the deferred charge at September 30, 2017 and December 31, 2016 were as follows:

| | September 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Intangible assets with a definite life: | | | | | | |
| Fair value adjustments: | | | | | | |
| Losses and LAE liabilities | $ 461,722 | $ (337,376) | $ 124,346 | $ 458,202 | $ (334,475) | $ 123,727 |
| Reinsurance balances recoverable | (179,026) | 160,904 | (18,122) | (175,924) | 160,350 | (15,574) |
| Other Assets | (48,840) | 331 | (48,509) | (48,840) | — | (48,840) |
| Other Liabilities | 85,845 | (313) | 85,532 | 85,845 | — | 85,845 |
| Total | $ 319,701 | $ (176,454) | $ 143,247 | $ 319,283 | $ (174,125) | $ 145,158 |
| Other: | | | | | | |
| Distribution channel | $ 20,000 | $ (5,111) | $ 14,889 | $ 20,000 | $ (4,111) | $ 15,889 |
| Technology | 15,000 | (12,477) | 2,523 | 15,000 | (10,978) | 4,022 |
| Brand | 7,000 | (2,683) | 4,317 | 7,000 | (2,158) | 4,842 |
| Total | $ 42,000 | $ (20,271) | $ 21,729 | $ 42,000 | $ (17,247) | $ 24,753 |
| Intangible assets with an indefinite life: | | | | | | |
| Lloyd's syndicate capacity | $ 37,031 | $ — | $ 37,031 | $ 37,031 | $ — | $ 37,031 |
| Licenses | 19,900 | — | 19,900 | 19,900 | — | 19,900 |
| Management contract | 30,100 | — | 30,100 | 30,100 | — | 30,100 |
| Total | $ 87,031 | $ — | $ 87,031 | $ 87,031 | $ — | $ 87,031 |
| Deferred charges on retroactive reinsurance | $ 278,643 | $ (193,479) | $ 85,164 | $278,643 | $ (184,092) | $94,551 |

## 13. DEBT OBLIGATIONS

We utilize debt arrangements primarily for acquisitions and, from time to time, for general corporate purposes. Debt obligations as at September 30, 2017 and December 31, 2016 were as follows:

| Facility | Origination Date | Term | September 30, 2017 | December 31, 2016 |
|---|---|---|---|---|
| Senior Notes | March 10, 2017 | 5 years | $ 350,000 | $ — |
| Less: Unamortized debt issuance costs | | | (2,561) | — |
| Total Senior Notes | | | 347,439 | — |
| EGL Revolving Credit Facility | September 16, 2014 | 5 years | 231,015 | 535,103 |
| EGL Term Loan Facility | November 18, 2016 | 3 years | 75,000 | 75,000 |
| Sussex Facility | December 24, 2014 | 4 years | — | 63,500 |
| Total debt obligations | | | $ 653,454 | $ 673,603 |

For the three months ended September 30, 2017 and 2016, interest expense was $6.2 million and $5.0 million, respectively, on our debt obligations. For the nine months ended September 30, 2017 and 2016, interest expense was $18.6 million and $15.8 million, respectively.

### *Senior Notes*

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

The Notes are rated BBB- and are redeemable at our option on a make whole basis at any time prior to the date that is one month prior to the maturity of the Notes. On or after the date that is one month prior to the maturity of the Notes, the Notes are redeemable at a redemption price equal to 100% of the principal amount of the Notes to be redeemed.

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

### *EGL Revolving Credit Facility*

This 5-year revolving credit facility, originated on September 16, 2014 and most recently amended on March 20, 2017, is among Enstar Group Limited and certain of its subsidiaries, as borrowers and as guarantors, and various financial institutions. We are permitted to borrow up to an aggregate of $831.3 million under the facility. As at September 30, 2017, there was $600.2 million of available unutilized capacity under this facility. We are in compliance with the covenants of the EGL Revolving Credit Facility. Subsequent to September 30, 2017, we utilized $170.0 million and repaid $53.0 million, bringing unutilized capacity under this facility to $483.2 million.

As at September 30, 2017 and December 31, 2016, there were borrowings of €50.0 million (approximately $59.0 million) and €75.0 million (approximately $88.5 million), respectively, under the facility that were designated as non-derivative hedges of our net investment in certain subsidiaries whose functional currency is denominated in Euros. The foreign exchange effect of revaluing these Euro borrowings resulted in a loss of $1.8 million and $8.3 million recognized in the currency translation adjustment within accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2017, respectively. These amounts were offset against equivalent amounts recognized upon the translation of those subsidiaries' financial statements from their Euro-denominated functional currency into U.S. dollars. There were no ineffective portions of the net investment hedge during the three and nine months ended September 30, 2017 and 2016. During the three months ended September 30, 2017, we repaid €25.0 million (approximately $29.5 million) of the non-derivative hedge and reclassified the related foreign exchange losses of $1.1 million previously deferred in CTA within accumulated other comprehensive income (loss) into earnings.

***EGL Term Loan Facility***

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

***Sussex Facility***

On December 24, 2014, we entered into a 4-year term loan (the "Sussex Facility") with two financial institutions. This facility was initially utilized to borrow $109.0 million to fund 50% of the consideration payable for the acquisition of Sussex, which was completed on January 27, 2015. We repaid the outstanding principal in June 2017 and terminated the facility.

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

**14. NONCONTROLLING INTERESTS**

***Redeemable Noncontrolling Interest***

Redeemable noncontrolling interest ("RNCI") as at September 30, 2017 and December 31, 2016 comprised the ownership interests held by the Trident V Funds ("Trident") (39.32%) and Dowling Capital Partners, L.P. ("Dowling") (1.71%) in our subsidiary North Bay Holdings Limited ("North Bay"). North Bay owns our investments in StarStone and Atrium as well as certain non-life run-off portfolios. The following is a reconciliation of the beginning and ending carrying amount of the equity attributable to the RNCI as at September 30, 2017 and December 31, 2016:

| | Nine Months Ended September 30, 2017 | Year Ended December 31, 2016 |
|---|---|---|
| Balance at beginning of period | $ 454,522 | $ 417,663 |
| Dividends paid | (27,458) | — |
| Net earnings attributable to RNCI | 12,190 | 40,639 |
| Accumulated other comprehensive earnings attributable to RNCI | 1,848 | 651 |
| Change in redemption value of RNCI | (760) | (4,431) |
| Balance at end of period | $ 440,342 | $ 454,522 |

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

***Noncontrolling Interest***

As at September 30, 2017 and December 31, 2016, we had $10.5 million and $8.5 million, respectively, of noncontrolling interest ("NCI") primarily related to an external interest in one of our non-life run-off subsidiaries.

**15. SHARE CAPITAL**

During the nine months ended September 30, 2017, 192,485 Series C Non-Voting Ordinary Shares were converted into Voting Ordinary Shares in a widely dispersed offering by their registered holders.

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

## 16. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Numerator:** | | | | |
| Net earnings from continuing operations | $ 35,498 | $ 152,151 | $ 184,864 | $ 235,682 |
| Net earnings (losses) from discontinued operations | 3,495 | 3,897 | (1,005) | 6,480 |
| Net earnings attributable to Enstar Group Limited | 38,993 | 156,048 | 183,859 | 242,162 |
| **Denominator:** | | | | |
| Weighted average ordinary shares outstanding — basic | 19,392,120 | 19,299,038 | 19,384,897 | 19,292,450 |
| Effect of dilutive securities: | | | | |
| Share-based compensation plans | 90,118 | 47,835 | 58,239 | 45,831 |
| Warrants | 76,930 | 102,557 | 72,851 | 94,377 |
| Weighted average ordinary shares outstanding — diluted | 19,559,168 | 19,449,430 | 19,515,987 | 19,432,658 |
| **Earnings per share attributable to Enstar Group Limited:** | | | | |
| Basic: | | | | |
| Net earnings from continuing operations | $ 1.83 | $ 7.89 | $ 9.54 | $ 12.21 |
| Net earnings (losses) from discontinued operations | $ 0.18 | $ 0.20 | $ (0.05) | $ 0.34 |
| Net earnings per ordinary share | $ 2.01 | $ 8.09 | $ 9.49 | $ 12.55 |
| Diluted: | | | | |
| Net earnings from continuing operations | $ 1.81 | $ 7.82 | $ 9.47 | $ 12.13 |
| Net earnings (losses) from discontinued operations | $ 0.18 | $ 0.20 | $ (0.05) | $ 0.33 |
| Net earnings per ordinary share | $ 1.99 | $ 8.02 | $ 9.42 | $ 12.46 |

## 17. SHARE-BASED COMPENSATION AND PENSIONS

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

Share-based compensation expense for the three and nine months ended September 30, 2017 was $9.3 million and $19.3 million, respectively, as compared to $7.9 million and $20.4 million for the comparative periods in 2016.

Employee share purchase plan expense for the three and nine months ended September 30, 2017 and 2016 was less than $0.1 million and less than $0.3 million, respectively.

Pension expense for the three and nine months ended September 30, 2017 was $4.0 million and $9.5 million, respectively, as compared to $2.7 million and $8.6 million for the comparative periods in 2016.

## 18. TAXATION

***Interim Tax Calculation Method***

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

***Interim Tax Expense***

The effective tax rates on income for the three months ended September 30, 2017 and 2016 were 6.5% and 4.7%, respectively. The effective tax rates on income for the nine months ended September 30, 2017 and 2016 were 1.6% and 8.1%, respectively. The effective tax rate on income differs from the statutory rate of 0% due to tax on foreign operations, primarily the United States and the United Kingdom. We have foreign operating subsidiaries and branch operations principally located in the United States, United Kingdom, Continental Europe and Australia that are subject to federal, foreign, state and local taxes in those jurisdictions. Deferred income tax liabilities have not been accrued with respect to the undistributed earnings of our foreign subsidiaries. If the earnings were to be distributed, as dividends or other distributions, withholding taxes may be imposed by the jurisdiction of the paying subsidiary. For our U.S. subsidiaries, we have not currently accrued any withholding taxes with respect to un-remitted earnings as management has no current intention of remitting these earnings. For our United Kingdom subsidiaries, there are no withholding taxes imposed. For our other foreign subsidiaries, it would not be practicable to compute such amounts due to a variety of factors, including the amount, timing, and manner of any repatriation. Because we operate in many jurisdictions, our net earnings are subject to risk due to changing tax laws and tax rates around the world. The current, rapidly changing economic environment may increase the likelihood of substantial changes to tax laws in the jurisdictions in which we operate.

***Accounting for Uncertainty in Income Taxes***

There were no unrecognized tax benefits relating to uncertain tax positions as at September 30, 2017 and December 31, 2016.

***Tax Examinations***

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

## 19. RELATED PARTY TRANSACTIONS

***Stone Point Capital LLC***

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

In addition, we have entered into certain agreements with Trident with respect to Trident's co-investments in the Atrium, Arden, and StarStone acquisitions. These include investors' agreements and shareholders' agreements, which provide for, among other things: (i) our right to redeem Trident's equity interest in the Atrium/Arden and StarStone transactions in cash at fair market value within the 90 days following the fifth anniversary of the Arden and StarStone closings, respectively, and at any time following the seventh anniversary of the Arden and StarStone closings, respectively; and (ii) Trident's right to have its equity co-investment interests in the Atrium/Arden and StarStone transactions redeemed by us at fair market value (which we may satisfy in either cash or our ordinary shares) following the seventh anniversaries of the Arden closing and StarStone closing, respectively. As at September 30, 2017, we have included $422.0 million (December 31, 2016: $435.6 million) as RNCI on our balance sheet relating to these Trident co-investment transactions. Pursuant to the terms of the shareholders' agreements, Mr. Carey serves as a Trident representative on the boards of the holding companies established in connection with the Atrium/Arden and StarStone co-investment transactions. Trident also has a second representative on these boards who is a Stone Point employee.

As at September 30, 2017, we had investments in funds (carried within other investments) and a registered investment company affiliated with entities owned by Trident or otherwise affiliated with Stone Point. The fair value of the investments in the funds was $251.1 million and $232.1 million as at September 30, 2017 and December 31, 2016, respectively. The fair value of our investment in the registered investment company was $28.4 million and $20.9 million as at September 30, 2017 and December 31, 2016, respectively. For the nine months ended September 30, 2017 and 2016, we recognized net unrealized gains of $17.8 million and $12.6 million, respectively, in respect of the fund investments and net unrealized gains of $5.1 million and $0.9 million, respectively, in respect of the registered investment company investment. For the nine months ended September 30, 2017 and 2016, we recognized interest income of $2.4 million and $2.3 million, respectively, in respect of the registered investment company.

We also have separate accounts, with a balance of $227.9 million and $215.0 million as at September 30, 2017 and December 31, 2016, respectively, managed by Eagle Point Credit Management and PRIMA Capital Advisors, which are affiliates of entities owned by Trident, with respect to which we incurred approximately $0.5 million and $0.3 million in management fees for the nine months ended September 30, 2017 and 2016, respectively.

In addition, we are invested in funds (carried within other investments) managed by Sound Point Capital, an entity in which Mr. Carey has an indirect minority ownership interest and serves as a director. The fair value of our investments in Sound Point Capital funds was $26.8 million and $25.4 million as at September 30, 2017 and December 31, 2016, respectively. For the nine months ended September 30, 2017 and 2016, we have recognized net unrealized gains of $1.4 million and $1.5 million, respectively, in respect of investments managed by Sound Point Capital.

Sound Point Capital has acted as collateral manager for certain of our direct investments in CLO equity securities. The fair value of these investments was $16.7 million and $20.3 million as at September 30, 2017 and December 31, 2016, respectively. For the nine months ended September 30, 2017 and 2016, we recognized net unrealized losses of $3.6 million and net unrealized gains of $2.5 million, respectively. For the nine months ended September 30, 2017 and 2016, we recognized interest income of $3.6 million and $5.2 million, respectively, in respect of these investments.

We have a separate account managed by Sound Point Capital, with a balance of $62.5 million and $61.2 million as at September 30, 2017 and December 31, 2016, respectively, with respect to which we incurred approximately $0.2 million in management fees for the nine months ended September 30, 2017 and 2016, respectively.

***CPPIB***

Canada Pension Plan Investment Board ("CPPIB"), together with management of Wilton Re, owns 100% of the common stock of Wilton Re. Subsequent to the closing of our transaction with Wilton Re to acquire our life settlements investments, on June 3, 2015, CPPIB purchased voting and non-voting shares in Enstar from FR XI Offshore AIV, L.P., First Reserve Fund XII, L.P., FR XII-A Parallel Vehicle L.P. and FR Torus Co-Investment, L.P. These shares constitute an approximately 9.1% voting interest and an approximately 9.8% aggregate economic interest in Enstar. On September 29, 2015, CPPIB exercised its acquired right to appoint a representative to our Board of Directors. During November 2016, CPPIB acquired additional non-voting shares in Enstar from Goldman Sachs in a private transaction. Following this transaction, CPPIB's shares constitute an approximate 9.1% voting interest and an approximate 16% aggregate economic interest in Enstar.

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

We also have a pre-existing reinsurance recoverable based on normal commercial terms from a company later acquired by Wilton Re, which was carried on our balance sheet at $8.2 million as at September 30, 2017.

***KaylaRe***

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

We recorded the investment in KaylaRe using the equity method basis of accounting, pursuant to the conclusion that we are not required to consolidate following an analysis based on the guidance in ASC 810 - Consolidation. Our investment in the common shares and warrants of KaylaRe was carried at $307.2 million and $294.6 million in other assets on our consolidated balance sheet as at September 30, 2017 and December 31, 2016, respectively.

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

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

Through a Quota Share Agreement dated December 15, 2016 (the "KaylaRe-StarStone QS"), several of our StarStone affiliates have entered into a Quota Share Treaty with KaylaRe Ltd. pursuant to which KaylaRe Ltd. reinsures 35% of all business written by these StarStone affiliates for risks attaching from January 1, 2016, net of the StarStone affiliates' external reinsurance programs. During the three and nine months ended September 30, 2017, StarStone ceded $57.3 million and $170.6 million, respectively, of premium earned, $53.7 million and $113.7 million , respectively, of net incurred losses and LAE and $33.6 million and $78.9 million, respectively, of acquisition costs to KaylaRe Ltd. under the KaylaRe-StarStone QS. Our Non-life Run-off subsidiaries did not cede any net incurred losses to KaylaRe Ltd. during the three and nine months ended September 30, 2017.

Our consolidated balance sheets as at September 30, 2017 and December 31, 2016 include the following balances related to transactions between us and KaylaRe and KaylaRe Ltd.: reinsurance recoverable of $331.0 million (2016: $242.1 million), prepaid reinsurance premiums of $107.8 million (2016: $109.0 million), funds held of $173.6 million (2016: $182.3 million) recorded in other liabilities, insurance and reinsurance balances payable of $224.0 million (2016: $132.6 million), and ceded acquisition costs of $28.2 million (2016: $41.2 million) recorded as a reduction of deferred acquisition costs.

***Hillhouse***

Investment funds managed by Hillhouse collectively own approximately 3.2% of Enstar's voting ordinary shares. These funds also own non-voting ordinary shares and warrants to purchase additional non-voting ordinary shares, which together with their voting ordinary shares, represent an approximate 9.99% economic interest in Enstar.

As at September 30, 2017 and December 31, 2016, our equity method investee, KaylaRe, had investments in a fund managed by Hillhouse with a fair value of $416.3 million and $350.0 million, respectively.

***Monument***

On August 29, 2017, we closed the previously announced sale of our wholly-owned subsidiary Laguna, to a subsidiary of Monument Insurance Group Limited ("Monument"), for a total consideration of €25.6 million (approximately $30.8 million).

Monument was established in October 2016 and Enstar has invested a total of $16.0 million in the common and preferred shares of Monument. We have approximately a 26.6% interest in Monument. In connection with our investment in Monument, we entered into a Shareholders Agreement with the other shareholders.

We recorded the investment in Monument using the equity method basis of accounting, as we concluded that we are not required to consolidate based on the guidance in ASC 810 - Consolidation. Our investment in the common and preferred shares of Monument was carried at $16.0 million and $0.2 million in other assets on our consolidated balance sheet as at September 30, 2017 and December 31, 2016, respectively.

## 20. COMMITMENTS AND CONTINGENCIES

### *Concentrations of Credit Risk*

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

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

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

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

We limit the amount of credit exposure to any one counterparty, and none of our counterparty credit exposures, excluding U.S. government instruments and the funds held counterparty noted above, exceeded 10% of shareholders’ equity as at September 30, 2017. Our credit exposure to the U.S. government was $1,306.8 million as at September 30, 2017.

### *Legal Proceedings*

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

***Unfunded Investment Commitments***

As at September 30, 2017, we had unfunded commitments to investment funds of $167.6 million.

***Guarantees***

As at September 30, 2017 and December 31, 2016, parental guarantees supporting subsidiaries' insurance obligations were $649.7 million and $625.7 million, respectively.

***Asbestos Personal Injury Liabilities***

We acquired Dana Companies, LLC ("Dana") on December 30, 2016, as described in Note 3 - "Acquisitions" of our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016. Dana continues to process asbestos personal injury claims in the normal course of business and is separately managed.

Other liabilities included $209.8 million and $220.5 million for indemnity and defense costs for pending and future claims at September 30, 2017 and December 31, 2016, respectively, determined using standard actuarial techniques for asbestos-related exposures. Other liabilities also included $2.2 million and $2.3 million for environmental liabilities associated with Dana properties at September 30, 2017 and December 31, 2016, respectively.

Other assets included $126.4 million and $133.0 million at September 30, 2017 and December 31, 2016, respectively, for estimated insurance recoveries relating to these liabilities. The recorded asset represents our assessment of the capacity of the insurance agreements to provide for the payment of anticipated defense and indemnity costs for pending claims and projected future demands. The recognition of these recoveries is based on an assessment of the right to recover under the respective contracts and on the financial strength of the insurers. The recorded asset does not represent the limits of our insurance coverage, but rather the amount we would expect to recover if the accrued indemnity and defense costs were paid in full.

***Redeemable Noncontrolling Interest***

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

## 21. SEGMENT INFORMATION

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

The following tables set forth selected and condensed consolidated statement of earnings results by segment for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Eliminations | Consolidated |
| INCOME | | | | | | |
| Net premiums earned | $ 6,415 | $ 32,773 | $ 107,650 | $ 1,187 | $ — | $ 148,025 |
| Fees and commission income | 10,762 | 5,911 | — | — | (778) | 15,895 |
| Net investment income | 42,829 | 847 | 7,592 | 1,567 | (807) | 52,028 |
| Net realized and unrealized gains (losses) | 25,016 | 285 | 5,045 | (1,045) | — | 29,301 |
| Other income (loss) | (4,018) | 69 | 91 | 10 | — | (3,848) |
| | 81,004 | 39,885 | 120,378 | 1,719 | (1,585) | 241,401 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | (70,882) | 35,273 | 111,321 | — | — | 75,712 |
| Life and annuity policy benefits | — | — | — | 1,060 | — | 1,060 |
| Acquisition costs | 1,001 | 11,818 | 11,313 | 149 | — | 24,281 |
| General and administrative expenses | 64,288 | 2,470 | 32,605 | 1,740 | (778) | 100,325 |
| Interest expense | 6,664 | 23 | 382 | 148 | (807) | 6,410 |
| Net foreign exchange losses (gains) | 5,000 | 43 | (1,145) | 877 | — | 4,775 |
| Loss on sale of subsidiary | — | — | — | 6,740 | — | 6,740 |
| | 6,071 | 49,627 | 154,476 | 10,714 | (1,585) | 219,303 |
| EARNINGS (LOSSES) BEFORE INCOME TAXES | 74,933 | (9,742) | (34,098) | (8,995) | — | 22,098 |
| INCOME TAXES | (970) | (554) | 78 | 14 | — | (1,432) |
| NET EARNINGS (LOSSES) FROM CONTINUING OPERATIONS | 73,963 | (10,296) | (34,020) | (8,981) | — | 20,666 |
| NET EARNINGS (LOSSES) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE | — | — | — | 3,495 | — | 3,495 |
| Less: Net (earnings) losses attributable to noncontrolling interest | (3,314) | 4,223 | 13,923 | — | — | 14,832 |
| NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ 70,649 | $ (6,073) | $ (20,097) | $ (5,486) | $ — | $ 38,993 |

| | Nine Months Ended September 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Non-life run-off | Atrium | StarStone | Life and annuities | Eliminations | Consolidated |
| INCOME | | | | | | |
| Net premiums earned | $ 9,856 | $ 97,373 | $ 341,609 | $ 3,656 | $ — | $ 452,494 |
| Fees and commission income | 30,302 | 17,353 | 1,166 | — | (2,345) | 46,476 |
| Net investment income | 118,130 | 2,832 | 20,230 | 11,920 | (2,928) | 150,184 |
| Net realized and unrealized gains (losses) | 127,130 | 1,177 | 18,953 | (7,563) | — | 139,697 |
| Other income | 18,679 | 188 | 170 | 169 | | 19,206 |
| | 304,097 | 118,923 | 382,128 | 8,182 | (5,273) | 808,057 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | (138,041) | 55,950 | 245,315 | — | — | 163,224 |
| Life and annuity policy benefits | — | — | — | 5,048 | — | 5,048 |
| Acquisition costs | 455 | 34,647 | 39,625 | 730 | | 75,457 |
| General and administrative expenses | 187,328 | 19,631 | 99,576 | 5,093 | (2,345) | 309,283 |
| Interest expense | 20,991 | 559 | 1,648 | 581 | (2,928) | 20,851 |
| Net foreign exchange losses | 7,664 | 4,355 | 1,563 | 2,030 | — | 15,612 |
| Loss on sale of subsidiary | — | — | — | 16,349 | — | 16,349 |
| | 78,397 | 115,142 | 387,727 | 29,831 | (5,273) | 605,824 |
| EARNINGS (LOSSES) BEFORE INCOME TAXES | 225,700 | 3,781 | (5,599) | (21,649) | — | 202,233 |
| INCOME TAXES | (5,609) | (1,278) | 3,648 | 5 | — | (3,234) |
| NET EARNINGS (LOSSES) FROM CONTINUING OPERATIONS | 220,091 | 2,503 | (1,951) | (21,644) | — | 198,999 |
| NET LOSSES FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE | — | — | — | (1,005) | — | (1,005) |
| Less: Net (earnings) losses attributable to noncontrolling interest | (13,944) | (1,027) | 836 | — | — | (14,135) |
| NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ 206,147 | $ 1,476 | $ (1,115) | $ (22,649) | $ — | $ 183,859 |

| | Three Months Ended September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Eliminations | Consolidated |
| INCOME | | | | | | |
| Net premiums earned | $ 1,297 | $ 32,550 | $ 170,593 | $ 1,290 | $ — | $ 205,730 |
| Fees and commission income | 1,316 | 5,679 | — | — | 2,192 | 9,187 |
| Net investment income | 35,346 | 853 | 5,478 | 7,094 | (749) | 48,022 |
| Net realized and unrealized gains (losses) | 70,374 | (38) | (276) | (3,452) | — | 66,608 |
| Other income | 1,692 | 52 | 93 | 409 | (1,832) | 414 |
| | 110,025 | 39,096 | 175,888 | 5,341 | (389) | 329,961 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | (125,119) | 13,823 | 104,394 | — | — | (6,902) |
| Life and annuity policy benefits | — | — | — | 1,682 | — | 1,682 |
| Acquisition costs | 121 | 12,041 | 38,151 | 132 | (371) | 50,074 |
| General and administrative expenses | 68,376 | 7,631 | 24,363 | 1,996 | 731 | 103,097 |
| Interest expense | 5,540 | — | — | 236 | (749) | 5,027 |
| Net foreign exchange losses | 1,023 | 148 | 1,004 | 101 | — | 2,276 |
| | (50,059) | 33,643 | 167,912 | 4,147 | (389) | 155,254 |
| EARNINGS BEFORE INCOME TAXES | 160,084 | 5,453 | 7,976 | 1,194 | — | 174,707 |
| INCOME TAXES | (9,118) | (681) | 1,571 | 1 | — | (8,227) |
| NET EARNINGS FROM CONTINUING OPERATIONS | 150,966 | 4,772 | 9,547 | 1,195 | — | 166,480 |
| NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE | — | — | — | 3,897 | — | 3,897 |
| Less: Net earnings attributable to noncontrolling interest | (8,454) | (1,958) | (3,917) | — | — | (14,329) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ 142,512 | $ 2,814 | $ 5,630 | $ 5,092 | $ — | $ 156,048 |

| | Nine Months Ended September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Non-life run-off | Atrium | StarStone | Life and annuities | Eliminations | Consolidated |
| INCOME | | | | | | |
| Net premiums earned | $ 11,208 | $ 96,219 | $ 495,710 | $ 4,189 | $ — | $ 607,326 |
| Fees and commission income | 8,747 | 15,889 | — | — | 1,462 | 26,098 |
| Net investment income | 109,157 | 2,042 | 16,511 | 17,554 | (2,030) | 143,234 |
| Net realized and unrealized gains | 119,925 | 70 | 22,094 | (2,701) | — | 139,388 |
| Other income | 5,528 | 151 | 1,688 | 578 | (1,832) | 6,113 |
| | 254,565 | 114,371 | 536,003 | 19,620 | (2,400) | 922,159 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | (173,363) | 46,545 | 299,596 | — | — | 172,778 |
| Life and annuity policy benefits | — | — | — | 227 | — | 227 |
| Acquisition costs | 2,047 | 34,368 | 102,729 | 460 | (654) | 138,950 |
| General and administrative expenses | 187,938 | 20,668 | 85,829 | 5,518 | 284 | 300,237 |
| Interest expense | 17,036 | — | — | 840 | (2,030) | 15,846 |
| Net foreign exchange losses (gains) | (1,193) | 2,219 | 732 | 434 | — | 2,192 |
| | 32,465 | 103,800 | 488,886 | 7,479 | (2,400) | 630,230 |
| EARNINGS BEFORE INCOME TAXES | 222,100 | 10,571 | 47,117 | 12,141 | — | 291,929 |
| INCOME TAXES | (17,277) | (1,939) | (4,417) | (13) | — | (23,646) |
| NET EARNINGS FROM CONTINUING OPERATIONS | 204,823 | 8,632 | 42,700 | 12,128 | — | 268,283 |
| NET EARNINGS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE | — | — | — | 6,480 | — | 6,480 |
| Less: Net earnings attributable to noncontrolling interest | (11,539) | (3,542) | (17,520) | — | — | (32,601) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ 193,284 | $ 5,090 | $ 25,180 | $ 18,608 | $ — | $ 242,162 |

***Assets by Segment***

Invested assets are managed on a subsidiary-by-subsidiary basis, and investment income and realized and unrealized gains (losses) on investments are recognized in each segment as earned. Our total assets as at September 30, 2017 and December 31, 2016 by segment were as follows (the elimination items include the elimination of intersegment assets):

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Total assets: | | |
| Non-life Run-off | $ 10,056,764 | $ 8,297,103 |
| Atrium | 610,298 | 563,754 |
| StarStone | 3,193,661 | 2,968,316 |
| Life and annuities | 1,519,965 | 1,644,013 |
| Less: | | |
| Eliminations | (621,258) | (607,442) |
| | $ 14,759,430 | $ 12,865,744 |

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

The following discussion and analysis of our financial condition as at September 30, 2017 and results of operations for the three and nine months ended September 30, 2017 and 2016 should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this quarterly report and the audited consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2016. Some of the information contained in this discussion and analysis or included elsewhere in this quarterly report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks, uncertainties and assumptions. Our actual results and the timing of events could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors" included in this quarterly report and in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

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**Business Overview**

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

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

While our core focus remains acquiring and managing non-life run-off business, in recent years, we expanded our business to include active underwriting through our acquisitions of Atrium and StarStone. We partnered with the Trident V Funds ("Trident") in the Atrium and StarStone acquisitions, with Enstar owning a 59.0% interest, Trident owning a 39.3% interest, and Dowling Capital Partners, L.P. ("Dowling") owning a 1.7% interest. We also expanded our portfolio of run-off businesses to include closed life and annuities, primarily through our acquisition of Pavonia Holdings (US) Inc. and its subsidiaries ("Pavonia") from HSBC Holdings plc in 2013, although in February 2017 we entered into an agreement to sell Pavonia.

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

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

***Key Performance Indicator***

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

During the nine months ended September 30, 2017, we increased our book value per share on a fully diluted basis by 6.9% to $153.53 per share. The increase was primarily due to net earnings attributable to Enstar Group Limited of $183.9 million.

***Current Outlook***

Our business strategy includes generating growth through acquisitions and reinsurance transactions, particularly in our Non-life Run-off segment, and during the nine months ended September 30, 2017 we completed two significant loss portfolio transfer reinsurance transactions with RSA Insurance Group PLC ("RSA") and QBE Insurance Group Limited ("QBE") in our Non-life Run-off segment. The net insurance reserves of $1.2 billion assumed in the RSA transaction reflected the impact of the recent updates to the Ogden rate, which is a discount rate used to determine lump sum compensation payments to injured claimants in the U.K. In our Life and Annuities segment, we sold Laguna Life DAC ("Laguna") during the three months ended September 30, 2017, and we entered into an agreement to sell Pavonia. The closing of the Pavonia transaction is subject to customary closing conditions, including regulatory approvals.

Our industry continues to experience challenging market conditions in underwriting and investing. We continue to see overcapacity in many markets for insurable risks, resulting in continued pressure on premium rates and terms and conditions. We seek to maintain a disciplined underwriting approach to underwrite for profitability in our active underwriting segments, StarStone and Atrium. For the nine months ended September 30, 2017 compared to 2016, total gross premiums written were relatively consistent in both our StarStone and Atrium segments as we selectively grew in certain lines, which included the development of additional underwriting capabilities. StarStone's net earned premium, net incurred losses and acquisition costs decreased significantly as a result of the 35% quota share reinsurance agreement with our equity method investee KaylaRe Holdings Ltd. ("KaylaRe"), which covers the 2016 and subsequent underwriting years.

The insurance and reinsurance industry was significantly impacted by large losses in the third quarter of 2017, namely those attributable to hurricanes Harvey, Irma and Maria, as well as the Mexico earthquake. Given the nature and complexity of these events it may take some time before the full extent of the losses is known, and the initial reported losses may develop favorably or adversely in the future. Additionally, the losses may have an impact on capacity and pricing, however at this time we cannot estimate with any certainty whether any such impacts would be significant.

Low yields persist in the investment markets and investment returns remain volatile. We expect to maintain our investment strategy, which emphasizes the preservation of our assets, credit quality, and diversification. We are implementing strategies to selectively increase the duration in certain investment portfolios. We will continue to seek superior risk-adjusted returns by allocating a portion of our portfolio to non-investment grade securities or alternative investments in accordance with our investment guidelines.

Although there was significant volatility in the financial and foreign exchange markets following the Brexit referendum on June 23, 2016, this did not have a material impact on our financial statements. This volatility is expected to continue. During the nine months ended September 30, 2017, Article 50 of the Lisbon Treaty was triggered, which allows two years for the United Kingdom and the 27 remaining European Union members to reach an agreement, otherwise the United Kingdom will leave the European Union on March 29, 2019. For companies based in the United Kingdom, including certain of our active underwriting and run-off companies, there is heightened uncertainty regarding trading relationships with countries in the European Union. Both our StarStone and Atrium operations have well-diversified sources of premium, which may mitigate the potential impact of Brexit. The majority of business written in StarStone and Atrium is in United States dollars, so the impact of currency volatility on those segments has not been significant. In addition, StarStone already has established operations within the European Economic Area. Lloyd's has stated its intention to retain passporting rights and to lobby the government to include this in its negotiations with the European Union, whilst also evaluating alternative models to access the markets. In the near-term, access to markets is unaffected, and all contracts entered into up until that time are expected to remain valid into the post-Brexit period.

***Recent Developments***

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

*RSA*

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

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

*QBE*

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

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

*Businesses Sold and Held for Sale in the Life and Annuities Segment*

On August 29, 2017, we closed the previously-announced sale of our wholly-owned subsidiary Laguna to a subsidiary of Monument Re Limited, for a total consideration of €25.6 million (approximately $30.8 million). The proceeds of the sale were used to pay down our revolving credit facility. Refer to Note 19 - "Related Party Transactions" for further information.

On February 17, 2017, we entered into a definitive agreement to sell Pavonia for total consideration of $120.0 million to Southland National Holdings, Inc. The closing of the transaction is subject to customary closing conditions, including regulatory approvals. The proceeds of the sale are expected to be used to pay down our revolving credit facility.

The results of Laguna through the closing of its sale on August 29, 2017, as well as the results, assets and liabilities of Pavonia, comprise a substantial portion of our Life and Annuities segment. Refer to Note 3 - "Held-for-Sale Businesses and Divestitures" for further information. Upon completion of the sale of Pavonia and having closed the sale of Laguna, we expect to re-evaluate our reporting segments.

***Non-GAAP Financial Measures***

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

The loss ratio is calculated by dividing net incurred losses and LAE by net premiums earned. The acquisition cost ratio is calculated by dividing acquisition costs by net premiums earned. The other operating expense ratio is calculated by dividing other operating expenses by net premiums earned. The combined ratio is the sum of the loss ratio, the acquisition cost ratio and the other operating expense ratio. The ratios exclude items related to the holding companies, which we believe is the most meaningful presentation because these items are not incremental and/or directly related to the individual underwriting operations.

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

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

In StarStone’s other operating expense ratio, the excluded general and administrative expenses primarily relate to the amortization of the definite-lived intangible assets, recorded at the holding company level.

**Consolidated Results of Operations - For the Three and Nine Months Ended September 30, 2017 and 2016**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands of U.S. dollars) | | | |
| INCOME | | | | |
| Net premiums earned | $ 148,025 | $ 205,730 | $ 452,494 | $ 607,326 |
| Fees and commission income | 15,895 | 9,187 | 46,476 | 26,098 |
| Net investment income | 52,028 | 48,022 | 150,184 | 143,234 |
| Net realized and unrealized gains | 29,301 | 66,608 | 139,697 | 139,388 |
| Other income (loss) | (3,848) | 414 | 19,206 | 6,113 |
| | 241,401 | 329,961 | 808,057 | 922,159 |
| EXPENSES | | | | |
| Net incurred losses and LAE | 75,712 | (6,902) | 163,224 | 172,778 |
| Life and annuity policy benefits | 1,060 | 1,682 | 5,048 | 227 |
| Acquisition costs | 24,281 | 50,074 | 75,457 | 138,950 |
| General and administrative expenses | 100,325 | 103,097 | 309,283 | 300,237 |
| Interest expense | 6,410 | 5,027 | 20,851 | 15,846 |
| Net foreign exchange losses | 4,775 | 2,276 | 15,612 | 2,192 |
| Loss on sale of subsidiary | 6,740 | — | 16,349 | — |
| | 219,303 | 155,254 | 605,824 | 630,230 |
| EARNINGS BEFORE INCOME TAXES | 22,098 | 174,707 | 202,233 | 291,929 |
| INCOME TAXES | (1,432) | (8,227) | (3,234) | (23,646) |
| NET EARNINGS FROM CONTINUING OPERATIONS | 20,666 | 166,480 | 198,999 | 268,283 |
| NET EARNINGS (LOSSES) FROM DISCONTINUED OPERATIONS, NET OF INCOME | 3,495 | 3,897 | (1,005) | 6,480 |
| Less: Net (earnings) losses attributable to noncontrolling interest | 14,832 | (14,329) | (14,135) | (32,601) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ 38,993 | $ 156,048 | $ 183,859 | $ 242,162 |

***Highlights***

*Consolidated Results of Operations for the Three Months Ended September 30, 2017*

- Consolidated net earnings of $39.0 million and basic and diluted earnings per ordinary share of $2.01 and $1.99, respectively
- Net earnings from Non-life Run-off segment of $70.6 million, including investment results
- Net investment income of $52.0 million and net realized and unrealized gains of $29.3 million
- Net premiums earned of $148.0 million, including $32.8 million and $107.7 million in our Atrium and StarStone segments, respectively
- Combined ratios of 151.4% and 144.2% for the active underwriting operations within our Atrium and StarStone segments, respectively, of which 67.2% and 44.8%, respectively, related to the 2017 large losses (refer to "Non-GAAP Financial Measures" above)

*Consolidated Results of Operations for the Nine Months Ended September 30, 2017*

- Consolidated net earnings of $183.9 million and basic and diluted earnings per ordinary share of $9.49 and $9.42, respectively
- Net earnings from Non-life Run-off segment of $206.1 million, including investment results
- Net investment income of $150.2 million and net realized and unrealized gains of $139.7 million
- Net premiums earned of $452.5 million, including $97.4 million and $341.6 million in our Atrium and StarStone segments, respectively
- Combined ratios of 105.7% and 112.6% for the active underwriting operations within our Atrium and StarStone segments, respectively, of which 22.8% and 14.2%, respectively, related to the 2017 large losses (refer to "Non-GAAP Financial Measures" above)

*Consolidated Financial Condition as at September 30, 2017:*

- Total investments and cash of $8,380.8 million
- Total reinsurance balances recoverable of $2,115.5 million
- Total assets of $14,759.4 million
- Shareholders' equity of $3,021.3 million and redeemable noncontrolling interest of $440.3 million
- Total gross reserves for losses and LAE of $7,615.7 million, with $1,401.0 million of net reserves assumed in our Non-life Run-off operations during the nine months ended September 30, 2017
- Diluted book value per ordinary share of $153.53

***Consolidated Overview - For the Three Months Ended September 30, 2017 and 2016***

We reported consolidated net earnings attributable to Enstar Group Limited shareholders of $39.0 million for the three months ended September 30, 2017, a decrease of $117.1 million from $156.0 million for the three months ended September 30, 2016. Our comparative results were impacted by the loss portfolio transfer reinsurance transactions that we completed in 2017 and 2016 with RSA, QBE, Allianz SE, The Coca-Cola Company, and Neon Underwriting Limited (formerly Marketform), and the acquisition of Dana Companies, LLC in 2016.

The most significant drivers of our consolidated financial performance during the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 included:

- *Non-life Run-off* - Net earnings attributable to the Non-life Run-off segment were $70.6 million and $142.5 million for the three months ended September 30, 2017 and 2016, respectively. The decrease in net earnings of $71.9 million was primarily due to lower favorable loss reserve development, lower net realized and unrealized gains and a decrease in other income;
- *Atrium* - Net losses were $6.1 million and net earnings were $2.8 million for the three months ended September 30, 2017 and 2016, respectively. The decrease in net earnings was primarily attributable to increased net incurred losses and LAE due to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, as well as the Mexico earthquake;
- *StarStone* - Net losses were $20.1 million and net earnings were $5.6 million for the three months ended September 30, 2017 and 2016, respectively. The decrease in net earnings was primarily attributable to increased net incurred losses and LAE due to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria;
- *Net Realized and Unrealized Gains* - Net realized and unrealized gains were $29.3 million and $66.6 million for the three months ended September 30, 2017 and 2016, respectively. This decrease was primarily attributable to net unrealized losses of $10.7 million relating to fixed maturity securities, trading for the three months ended September 30, 2017, compared to net unrealized gains of $12.2 million for the three months ended September 30, 2016 and lower net unrealized gains on other investments;

- *Life and Annuities* - Net losses were $5.5 million compared to net earnings of $5.1 million for the three months ended September 30, 2017 and 2016, respectively, with the decrease primarily attributable to the loss on sale of Laguna;

- *Net Investment Income* - Net investment income was $52.0 million and $48.0 million for the three months ended September 30, 2017 and 2016, respectively. The increase was primarily due to an increase in average investable assets due to the transactions noted above; and

- *Noncontrolling Interest* - The net (earnings) losses attributable to the noncontrolling interest are directly related to the results from those subsidiary companies in which there are either noncontrolling interests or redeemable noncontrolling interests. The net losses attributable to noncontrolling interest were $14.8 million compared to net earnings attributable to noncontrolling interest of $14.3 million, for the three months ended September 30, 2017 and 2016, respectively. The decrease was primarily due to net losses in both the Atrium and StarStone segments, primarily due to the large losses in 2017, as discussed above.

***Consolidated Overview - For the Nine Months Ended September 30, 2017 and 2016***

We reported consolidated net earnings attributable to Enstar Group Limited shareholders of $183.9 million for the nine months ended September 30, 2017, a decrease of $58.3 million from $242.2 million for the nine months ended September 30, 2016. Our comparative results were impacted by our acquisition and disposition activity and completed loss portfolio transfer reinsurance transactions noted above.

The most significant drivers of our consolidated financial performance during the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 included:

- *Non-life Run-off* - Net earnings attributable to the Non-life Run-off segment were $206.1 million and $193.3 million for the nine months ended September 30, 2017 and 2016, respectively. The increase in net earnings of $12.9 million was primarily due to increased other income and increased fee and commission income, primarily attributable to our investment in KaylaRe;

- *Net Investment Income* - Net investment income was $150.2 million and $143.2 million for the nine months ended September 30, 2017 and 2016, respectively. The increase was primarily attributable to an increase in average investable assets due to the transactions noted above;

- *Noncontrolling Interest* - The net earnings attributable to the noncontrolling interest are directly related to the results from those subsidiary companies in which there are either noncontrolling interests or redeemable noncontrolling interests. For the nine months ended September 30, 2017 and 2016, the net earnings attributable to noncontrolling interest were $14.1 million and $32.6 million, respectively, primarily reflecting losses from the 2017 large losses, as discussed above;

- *Atrium* - Net earnings for the nine months ended September 30, 2017 and 2016 were $1.5 million and $5.1 million, respectively. The decrease was primarily attributable to the large losses in 2017, as discussed above;

- *StarStone* - Net losses were $1.1 million compared to net earnings of $25.2 million for the nine months ended September 30, 2017 and 2016, respectively. The decrease was primarily attributable to the large losses in 2017, as discussed above; and

- *Life and Annuities* - Net losses were $22.6 million compared to net earnings of $18.6 million for the nine months ended September 30, 2017 and 2016, respectively, with the decrease primarily attributable to the loss on sale of Laguna and impairments of our investments in life settlements.

**Results of Operations by Segment - For the Three and Nine Months Ended September 30, 2017 and 2016**

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands of U.S. dollars) | | | |
| Segment split of net earnings attributable to Enstar Group Limited: | | | | |
| Non-life Run-off | $ 70,649 | $ 142,512 | $ 206,147 | $ 193,284 |
| Atrium | (6,073) | 2,814 | 1,476 | 5,090 |
| StarStone | (20,097) | 5,630 | (1,115) | 25,180 |
| Life and Annuities | (5,486) | 5,092 | (22,649) | 18,608 |
| Net earnings attributable to Enstar Group Limited | $ 38,993 | $ 156,048 | $ 183,859 | $ 242,162 |

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

### *Non-life Run-off Segment*

Our Non-life Run-off segment comprises the operations of our subsidiaries that are running off their property and casualty and other non-life lines of business, including the run-off business of Arden Reinsurance Company Ltd., acquired in the Atrium transaction, and StarStone. It also includes our smaller management business, which manages the run-off portfolios of third parties through our service companies. The following is a discussion and analysis of the results of operations for our Non-life Run-off segment for the three and nine months ended September 30, 2017 and 2016, which are summarized below.

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| INCOME | | | | | | |
| Net premiums earned | $ 6,415 | $ 1,297 | $ 5,118 | $ 9,856 | $ 11,208 | $ (1,352) |
| Fees and commission income | 10,762 | 1,316 | 9,446 | 30,302 | 8,747 | 21,555 |
| Net investment income | 42,829 | 35,346 | 7,483 | 118,130 | 109,157 | 8,973 |
| Net realized and unrealized gains | 25,016 | 70,374 | (45,358) | 127,130 | 119,925 | 7,205 |
| Other income (expense) | (4,018) | 1,692 | (5,710) | 18,679 | 5,528 | 13,151 |
| | 81,004 | 110,025 | (29,021) | 304,097 | 254,565 | 49,532 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | (70,882) | (125,119) | 54,237 | (138,041) | (173,363) | 35,322 |
| Acquisition costs | 1,001 | 121 | 880 | 455 | 2,047 | (1,592) |
| General and administrative expenses | 64,288 | 68,376 | (4,088) | 187,328 | 187,938 | (610) |
| Interest expense | 6,664 | 5,540 | 1,124 | 20,991 | 17,036 | 3,955 |
| Net foreign exchange losses (gains) | 5,000 | 1,023 | 3,977 | 7,664 | (1,193) | 8,857 |
| | 6,071 | (50,059) | 56,130 | 78,397 | 32,465 | 45,932 |
| EARNINGS BEFORE INCOME TAXES | 74,933 | 160,084 | (85,151) | 225,700 | 222,100 | 3,600 |
| INCOME TAXES | (970) | (9,118) | 8,148 | (5,609) | (17,277) | 11,668 |
| NET EARNINGS | 73,963 | 150,966 | (77,003) | 220,091 | 204,823 | 15,268 |
| Less: Net earnings attributable to noncontrolling interest | (3,314) | (8,454) | 5,140 | (13,944) | (11,539) | (2,405) |
| NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ 70,649 | $ 142,512 | $ (71,863) | $ 206,147 | $ 193,284 | $ 12,863 |

*Overall Results*

**Three Months Ended September 30:** Net earnings were $70.6 million and $142.5 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of $71.9 million. This was primarily due to lower favorable loss reserve development, lower net realized and unrealized gains and a decrease in other income. The decrease in net earnings was partially offset by an increase in fees and commission income, a decrease in the income tax expense and an increase in net investment income, among other items.

**Nine Months Ended September 30:** Net earnings were $206.1 million and $193.3 million for the nine months ended September 30, 2017 and 2016, respectively, an increase of $12.9 million. This was primarily due to an increase in fees and commission income, favorable investment results, an increase in other income and a decrease in the income tax expense. The increase in net earnings was partially offset by lower favorable loss reserve development, an increase in net foreign exchange losses and interest expense, among other items.

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

*Net Premiums Earned:*

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Gross premiums written | $ 11,751 | $ 2,066 | $ 9,685 | $ 13,956 | $ 15,829 | $ (1,873) |
| Ceded reinsurance premiums written | (284) | (2,293) | 2,009 | (503) | (8,009) | 7,506 |
| Net premiums written | 11,467 | (227) | 11,694 | 13,453 | 7,820 | 5,633 |
| Gross premiums earned | 9,345 | 2,054 | 7,291 | 15,353 | 19,217 | (3,864) |
| Ceded reinsurance premiums earned | (2,930) | (757) | (2,173) | (5,497) | (8,009) | 2,512 |
| Net premiums earned | $ 6,415 | $ 1,297 | $ 5,118 | $ 9,856 | $ 11,208 | $ (1,352) |

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

**Three and Nine Months Ended September 30:** Premiums written and earned in the three and nine months ended September 30, 2017 and 2016 were primarily related to the run-off business of Sussex Insurance Company ("Sussex") and Alpha Insurance SA ("Alpha") for the obligatory renewal of certain policies that we are in the process of placing into run-off. In addition, during the three months ended September 30, 2017, there was a reinstatement premium relating to a loss settlement on other business related to prior periods, which was fully offset by net incurred losses.

*Fees and Commission Income:*

**Three and Nine Months Ended September 30:** Our management companies in the Non-life Run-off segment earned fees and commission income of $10.8 million and $1.3 million for the three months ended September 30, 2017 and 2016, respectively, and $30.3 million and $8.7 million for the nine months ended September 30, 2017 and 2016, respectively. The increase in fees and commission income is primarily related to services provided to KaylaRe. While our consulting subsidiaries continue to provide management and consultancy services, claims inspection services and reinsurance collection services to third-party clients in limited circumstances, the core focus of these subsidiaries is providing in-house services to companies within the Enstar group. These internal fees are predominantly eliminated upon consolidation of our results of operations.

*Other Income (Expense):*

**Three Months Ended September 30:** For the three months ended September 30, 2017 we recorded other expense of $4.0 million, compared to other income of $1.7 million for the three months ended September 30, 2016. The decrease of $5.7 million is primarily due to losses from the equity method investment in KaylaRe as a result of the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria.

**Nine Months Ended September 30:** Other income for the nine months ended September 30, 2017 increased from $5.5 million for the nine months ended September 30, 2016 to $18.7 million, an increase of $13.2 million. This primarily included earnings from the equity method investment in KaylaRe, and also included a gain on the sale of SeaBright Insurance Company ("SeaBright"). SeaBright contained only insurance licenses at the time of sale, having previously reinsured all of its run-off liabilities into another Enstar entity.

*Net Incurred Losses and LAE:*

The following table shows the components of net incurred losses and LAE for the Non-life-Run-off segment for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Periods | Current Period | Total | Prior Periods | Current Period | Total |
| | (in thousands of U.S. dollars) | | | | | |
| Net losses paid | $ 135,981 | $ 33 | $ 136,014 | $ 107,260 | $ 2,050 | $ 109,310 |
| Net change in case and LAE reserves [(1)] | (66,376) | (16) | (66,392) | (323,301) | 55 | (323,246) |
| Net change in IBNR reserves [(1)] | (120,614) | (152) | (120,766) | (60,634) | 777 | (59,857) |
| Amortization of deferred charge | 3,310 | — | 3,310 | 154,102 | — | 154,102 |
| Increase (reduction) in estimates of net ultimate losses | (47,699) | (135) | (47,834) | (122,573) | 2,882 | (119,691) |
| Reduction in provisions for bad debt | — | — | — | (502) | — | (502) |
| Increase (reduction) in provisions for unallocated LAE | (16,203) | 165 | (16,038) | (10,861) | 55 | (10,806) |
| Amortization of fair value adjustments | 3,494 | — | 3,494 | 5,880 | — | 5,880 |
| Changes in fair value - fair value option | $ (10,504) | $ — | $ (10,504) | $ — | $ — | $ — |
| Net incurred losses and LAE | $ (70,912) | $ 30 | $ (70,882) | $ (128,056) | $ 2,937 | $ (125,119) |

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

**Three Months Ended September 30:** The reduction in net incurred losses and LAE for the three months ended September 30, 2017 relating to prior periods was $70.9 million, which was attributable to a reduction in estimates of net ultimate losses of $47.7 million, a reduction in provisions for unallocated LAE of $16.2 million, relating to 2017 run-off activity, and a decrease in fair value of $10.5 million related to our assumed retroactive reinsurance agreements with RSA and QBE completed during 2017, and for which we have elected the fair value option, partially offset by the amortization of fair value adjustments over the estimated payout period relating to companies acquired of $3.5 million. The reduction in estimates of net ultimate losses of $47.7 million for the three months ended September 30, 2017 included a net change in case and IBNR reserves of $187.0 million, partially offset by amortization of the deferred charge of $3.3 million.

The reduction in net incurred losses and LAE for the three months ended September 30, 2016 of $125.1 million included net incurred losses and LAE of $2.9 million related to current period net earned premium of $1.6 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $2.9 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $128.1 million, which was attributable to a reduction in estimates of net ultimate losses of $122.6 million, a reduction in provisions for bad debt of $0.5 million, and a reduction in provisions for unallocated LAE of $10.9 million, partially offset by the amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $5.9 million, relating to 2016 run-off activity. The reduction in estimates of net ultimate losses of $122.6 million for the three months ended September 30, 2016 included a net change in case and IBNR reserves of $383.9 million, primarily due to a net change in case and IBNR reserves of $226.8 million related to certain of our workers compensation business in the United States. This reduction resulted from an actuarial review completed during the third quarter of 2016 and considered favorable loss experience and our knowledge of comparable portfolios of business. This reduction of estimates in net ultimate losses for the three months ended September 30, 2016 was partially offset by amortization of the deferred charge of $154.1 million, which was primarily comprised of $115.2 million related to a reduction in the liability for losses and LAE, and $38.6 million primarily related to change in the expected return of on the underlying assets. The reduction in provisions for bad debt of $0.5 million was as a result of the collection of certain reinsurance recoverables against which bad debt provisions had previously been provided for in earlier periods.

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Prior Periods | Current Period | Total | Prior Periods | Current Period | Total |
| | (in thousands of U.S. dollars) | | | | | |
| Net losses paid | $ 436,594 | $ 404 | $ 436,998 | $ 378,581 | $ 6,098 | $ 384,679 |
| Net change in case and LAE reserves [1] | (276,903) | (32) | (276,935) | (507,102) | 511 | (506,591) |
| Net change in IBNR reserves [1] | (262,296) | 572 | (261,724) | (202,387) | 2,631 | (199,756) |
| Amortization of deferred charge | 9,386 | — | 9,386 | 162,741 | — | 162,741 |
| Increase (reduction) in estimates of net ultimate losses | (93,219) | 944 | (92,275) | (168,167) | 9,240 | (158,927) |
| Reduction in provisions for bad debt | (735) | — | (735) | (7,132) | — | (7,132) |
| Increase (reduction) in provisions for unallocated LAE | (41,557) | 261 | (41,296) | (25,451) | 284 | (25,167) |
| Amortization of fair value adjustments | 5,519 | — | 5,519 | 17,863 | — | 17,863 |
| Changes in fair value - fair value option | $ (9,254) | $ — | $ (9,254) | $ — | $ — | $ — |
| Net incurred losses and LAE | $ (139,246) | $ 1,205 | $ (138,041) | $ (182,887) | $ 9,524 | $ (173,363) |

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

**Nine Months Ended September 30:** The reduction in net incurred losses and LAE for the nine months ended September 30, 2017 of $138.0 million included net incurred losses and LAE of $1.2 million related to current period net earned premium related to the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $1.2 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $139.2 million, which was attributable to a reduction in estimates of net ultimate losses of $93.2 million, a reduction in provisions for bad debt of $0.7 million, a reduction in provisions for unallocated LAE of $41.6 million, and a decrease in fair value of $9.3 million related to our assumed retroactive reinsurance agreements with RSA and QBE completed during 2017, and for which we have elected the fair value option, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired of $5.5 million. The reduction in estimates of net ultimate losses of $93.2 million for the nine months ended September 30, 2017 included a net change in case and IBNR reserves of $539.2 million, partially offset by amortization of the deferred charge of $9.4 million. The reduction in provisions for bad debt of $0.7 million was a result of the collection of dividends from insolvent reinsurer estates.

The reduction in net incurred losses and LAE for the nine months ended September 30, 2016 of $173.4 million included net incurred losses and LAE of $9.5 million related to current period net earned premium of $6.6 million, primarily for the run-off business acquired with Sussex. Excluding current period net incurred losses and LAE of $9.5 million, net incurred losses and LAE liabilities relating to prior periods were reduced by $182.9 million, which was attributable to a reduction in estimates of net ultimate losses of $168.2 million, a reduction in provisions for bad debt of $7.1 million, and a reduction in provisions for unallocated LAE of $25.5 million, relating to 2016 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $17.9 million. The reduction in estimates of net ultimate losses of $168.2 million for the nine months ended September 30, 2016 included a net change in case and IBNR reserves of $709.5 million. As discussed above, the reduction of estimates in net ultimate losses for the nine months ended September 30, 2016 included the results of an actuarial review on certain of our workers compensation business in the United States, partially offset by amortization of the deferred charge of $162.7 million. The reduction in provisions for bad debt of $7.1 million was a result of the collection of certain reinsurance recoverables against which the provisions for bad debt had been provided in earlier periods.

*Acquisition Costs:*

**Three and Nine Months Ended September 30:** Acquisition costs were $1.0 million and $0.1 million for the three months ended September 30, 2017 and 2016, respectively, and $0.5 million and $2.0 million for the nine months ended September 30, 2017 and 2016, respectively. Acquisition costs for the three and nine months ended September 30, 2017 primarily related to net premiums earned on the Sussex and Alpha business that was placed into run-off.

*General and Administrative Expenses:*

**Three and Nine Months Ended September 30:** General and administrative expenses were $64.3 million and $68.4 million for the three months ended September 30, 2017 and 2016, respectively, and $187.3 million and $187.9 million for the nine months ended September 30, 2017 and 2016, respectively. The decrease in general and administrative expenses for the three months ended September 30, 2017 was primarily attributable to higher bonus accrual for the three months ended September 30, 2016 related to higher earnings.

*Interest Expense:*

**Three and Nine Months Ended September 30:** Interest expense was $6.7 million and $5.5 million for the three months ended September 30, 2017 and 2016, respectively, and $21.0 million and $17.0 million for the nine months ended September 30, 2017 and 2016, respectively. The increase in interest expense was primarily due to the issuance of Senior Notes in the first quarter of 2017.

*Net Foreign Exchange Losses*

**Three and Nine Months Ended September 30:** Net foreign exchange losses were $5.0 million and $1.0 million for the three months ended September 30, 2017 and 2016, respectively. Net foreign exchange losses were $7.7 million and net foreign exchange gains were $1.2 million for the nine months ended September 30, 2017 and 2016, respectively. The foreign exchange losses for the nine months ended September 30, 2017 arose primarily as a result of changes in exchange rates and the resulting impact on our foreign currency denominated investments and subsidiaries, which is partially offset by the change in CTA.

*Noncontrolling Interest:*

**Three and Nine Months Ended September 30:** The net earnings attributable to the noncontrolling interest of our Non-life Run-off segment were $3.3 million and $8.5 million for the three months ended September 30, 2017 and 2016, respectively, and $13.9 million and $11.5 million for the nine months ended September 30, 2017 and 2016, respectively. The number of subsidiaries in this segment with a noncontrolling interest remained unchanged at two as at September 30, 2017 and September 30, 2016.

***Atrium Segment***

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

The following is a discussion and analysis of the results of operations for our Atrium segment for the three and nine months ended September 30, 2017 and 2016, which are summarized below.

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| INCOME | | | | | | |
| Net premiums earned | $ 32,773 | $ 32,550 | $ 223 | $ 97,373 | $ 96,219 | $ 1,154 |
| Fees and commission income | 5,911 | 5,679 | 232 | 17,353 | 15,889 | 1,464 |
| Net investment income | 847 | 853 | (6) | 2,832 | 2,042 | 790 |
| Net realized and unrealized gains (losses) | 285 | (38) | 323 | 1,177 | 70 | 1,107 |
| Other income | 69 | 52 | 17 | 188 | 151 | 37 |
| | 39,885 | 39,096 | 789 | 118,923 | 114,371 | 4,552 |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | 35,273 | 13,823 | 21,450 | 55,950 | 46,545 | 9,405 |
| Acquisition costs | 11,818 | 12,041 | (223) | 34,647 | 34,368 | 279 |
| General and administrative expenses | 2,470 | 7,631 | (5,161) | 19,631 | 20,668 | (1,037) |
| Interest expense | 23 | — | 23 | 559 | — | 559 |
| Net foreign exchange losses (gains) | 43 | 148 | (105) | 4,355 | 2,219 | 2,136 |
| | 49,627 | 33,643 | 15,984 | 115,142 | 103,800 | 11,342 |
| EARNINGS (LOSSES) BEFORE INCOME TAXES | (9,742) | 5,453 | (15,195) | 3,781 | 10,571 | (6,790) |
| INCOME TAXES | (554) | (681) | 127 | (1,278) | (1,939) | 661 |
| NET EARNINGS (LOSSES) | (10,296) | 4,772 | (15,068) | 2,503 | 8,632 | (6,129) |
| Less: Net (earnings) losses attributable to noncontrolling interest | 4,223 | (1,958) | 6,181 | (1,027) | (3,542) | 2,515 |
| NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ (6,073) | $ 2,814 | $ (8,887) | $ 1,476 | $ 5,090 | $ (3,614) |

*Overall Results*

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Atrium 5 | $ (7,583) | $ 1,617 | $ (9,200) | $ (3,335) | $ 2,360 | $ (5,695) |
| AUL | 1,807 | 1,551 | 256 | 5,904 | 3,679 | 2,225 |
| Atrium Total | (5,776) | 3,168 | (8,944) | 2,569 | 6,039 | (3,470) |
| Holding Company | (297) | (354) | 57 | (1,093) | (949) | (144) |
| NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ (6,073) | $ 2,814 | $ (8,887) | $ 1,476 | $ 5,090 | $ (3,614) |

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | (Favorable) Unfavorable | 2017 | 2016 | (Favorable) Unfavorable |
| Loss ratio (1) | 107.6% | 42.0% | 65.6 % | 57.5% | 48.1% | 9.4 % |
| Acquisition cost ratio (1) | 36.1% | 37.9% | (1.8)% | 35.6% | 35.7% | (0.1)% |
| Other operating expense ratio (1) | 7.7% | 12.1% | (4.4)% | 12.6% | 11.9% | 0.7 % |
| Combined ratio (1) | 151.4% | 92.0% | 59.4 % | 105.7% | 95.7% | 10.0 % |

(1) Refer to "Non-GAAP Financial Measures" for a description of how these ratios are calculated. The ratios are based upon the following amounts for Atrium 5, which exclude amounts for AUL and the Holding Company, for the three months ended September 30, 2017 and 2016, respectively: net premiums earned of $32,773 and $32,550, net incurred losses and LAE of $35,273 and $13,687, acquisition costs of $11,818 and $12,346, and other operating expenses of $2,508 and $3,926. The ratios are based upon the following amounts for Atrium 5, which exclude amounts for AUL and the Holding Company, for the nine months ended September 30, 2017 and 2016, respectively: net premiums earned of $97,373 and $96,219, net incurred losses and LAE of $55,950 and $46,257, acquisition costs of $34,647 and $34,368, and other operating expenses of $12,227 and $11,412.

The higher combined ratio of Atrium 5 for the three and nine months ended September 30, 2017 as compared to the three and nine months ended September 30, 2016 was due to increases in the loss ratio. This was primarily attributable to unfavorable current year loss experience in the three and nine months ended September 30, 2017 as compared to the three and nine months ended September 30, 2016, due to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, as well as the Mexico earthquake. For the three months ended September 30, 2017 the Atrium segment recorded a net underwriting income impact of $22.1 million related to the large losses in 2017, which contributed 66.7 and 67.2 percentage points to the loss ratio and combined ratio, respectively. For the nine months ended September 30, 2017 the large losses in 2017 contributed 22.5 and 22.8 percentage points to the loss ratio and combined ratio, respectively.

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

Investment results are separately discussed below in "Investments."

*Gross Premiums Written:*

The following table provides gross premiums written by line of business for the Atrium segment for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Marine | $ 4,301 | $ 5,153 | $ (852) | $ 14,485 | $ 15,649 | $ (1,164) |
| Property and Casualty Binding Authorities | 11,335 | 9,828 | 1,507 | 30,713 | 28,893 | 1,820 |
| Upstream Energy | 710 | 1,476 | (766) | 5,304 | 7,873 | (2,569) |
| Reinsurance | 3,937 | 3,186 | 751 | 17,316 | 13,137 | 4,179 |
| Accident and Health | 3,482 | 2,860 | 622 | 12,206 | 10,432 | 1,774 |
| Non-Marine Direct and Facultative | 4,272 | 4,080 | 192 | 11,671 | 12,665 | (994) |
| Liability | 6,358 | 5,694 | 664 | 17,945 | 15,827 | 2,118 |
| Aviation | 1,163 | 1,735 | (572) | 5,119 | 7,046 | (1,927) |
| Terrorism | 819 | 1,026 | (207) | 2,596 | 2,815 | (219) |
| Total | $ 36,377 | $ 35,038 | $ 1,339 | $ 117,355 | $ 114,337 | $ 3,018 |

See below for a discussion of the drivers of the change in net premiums written and earned for the three and nine months ended September 30, 2017 and 2016.

*Net Premiums Earned:*

The following table provides net premiums earned by line of business for the Atrium segment for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Marine | $ 4,090 | $ 4,617 | $ (527) | $ 11,586 | $ 13,705 | $ (2,119) |
| Property and Casualty Binding Authorities | 9,557 | 9,298 | 259 | 27,850 | 26,145 | 1,705 |
| Upstream Energy | 926 | 1,784 | (858) | 3,888 | 6,436 | (2,548) |
| Reinsurance | 3,752 | 3,284 | 468 | 11,397 | 9,251 | 2,146 |
| Accident and Health | 3,893 | 3,408 | 485 | 11,587 | 9,882 | 1,705 |
| Non-Marine Direct and Facultative | 2,783 | 3,452 | (669) | 8,983 | 10,128 | (1,145) |
| Liability | 5,961 | 4,482 | 1,479 | 16,604 | 13,425 | 3,179 |
| Aviation | 1,228 | 1,414 | (186) | 3,514 | 4,870 | (1,356) |
| Terrorism | 583 | 811 | (228) | 1,964 | 2,377 | (413) |
| Total | $ 32,773 | $ 32,550 | $ 223 | $ 97,373 | $ 96,219 | $ 1,154 |

**Three and Nine Months Ended September 30:** Net premiums earned for the Atrium segment were $32.8 million and $32.6 million for the three months ended September 30, 2017 and 2016, respectively, and $97.4 million and $96.2 million for the nine months ended September 30, 2017 and 2016, respectively. The increase in the liability and reinsurance lines of business was primarily due to new business written by underwriters hired in property reinsurance and international professional liability, respectively.

*Fees and Commission Income:*

**Three and Nine Months Ended September 30:** Fees and commission income were $5.9 million and $5.7 million for the three months ended September 30, 2017 and 2016, respectively, and $17.4 million and $15.9 million for the nine months ended September 30, 2017 and 2016, respectively. The fees primarily represent profit commission fees earned by us in relation to AUL's management of Syndicate 609 and other underwriting consortiums.

*Net Incurred Losses and LAE:*

**Three and Nine Months Ended September 30:** Net incurred losses and LAE for the three months ended September 30, 2017 and 2016 were $35.3 million and $13.8 million, respectively, and $56.0 million and $46.5 million for the nine months ended September 30, 2017 and 2016, respectively. Net favorable prior year loss development was $2.0 million and $6.0 million for the three months ended September 30, 2017 and 2016, respectively, and $10.6 million and $9.9 million for the nine months September 30, 2017 and 2016, respectively. Net favorable prior year loss development in the three months ended September 30, 2017 and 2016 was spread across most lines of business. Excluding prior year loss development, net incurred losses and LAE for the three months ended September 30, 2017 and 2016 were $37.3 million and $19.8 million, respectively. Excluding prior year loss development, net incurred losses and LAE for the nine months ended September 30, 2017 and 2016 were $66.9 million and $56.5 million, respectively. The increase in net incurred losses and LAE for the three and nine months ended September 30, 2017 compared with 2016, excluding prior year loss development, was due primarily to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, as well as the Mexico earthquake. This impacted the non-marine direct and facultative, property and casualty binding authority and reinsurance lines of business.

*Acquisition Costs:*

**Three and Nine Months Ended September 30:** Acquisition costs were $11.8 million and $12.0 million for the three months ended September 30, 2017 and 2016, respectively, and $34.6 million and $34.4 million for the nine months ended September 30, 2017 and 2016, respectively. The Atrium acquisition cost ratios were 36.1% and 37.9% for the three months ended September 30, 2017 and 2016, respectively, and 35.6% and 35.7% for the nine months September 30, 2017 and 2016, respectively. The decrease for the three months and nine months ended September 30, 2017, was primarily due to changes in the business mix. Refer to "Non-GAAP Financial Measures" for a description of how the acquisition cost ratio is calculated.

*General and Administrative Expenses:*

**Three and Nine Months Ended September 30:** General and administrative expenses for the Atrium segment were $2.5 million and $7.6 million for the three months ended September 30, 2017 and 2016, respectively, and $19.6 million and $20.7 million for the nine months ended September 30, 2017 and 2016, respectively. The decrease in general and administrative expenses for the three and nine months ended September 30, 2017 as compared to the three and nine months ended September 30, 2016, was primarily due to lower bonus accruals relating to lower net earnings in the three and nine months ended September 30, 2017.

*Net Foreign Exchange Losses:*

**Three and Nine Months Ended September 30:** Net foreign exchange losses for the Atrium segment were $0.1 million and $0.1 million for the three months ended September 30, 2017 and 2016, respectively, and $4.4 million and $2.2 million for the nine months ended September 30, 2017 and 2016, respectively. The foreign exchange losses for the nine months ended September 30, 2017 were primarily due to the translation of non-functional currency liabilities, which is substantially offset by foreign exchange on available-for-sale investments recorded in accumulated other comprehensive income.

*Noncontrolling Interest:*

**Three and Nine Months Ended September 30:** The net losses attributable to the noncontrolling interest in the Atrium segment were $4.2 million for the three months ended September 30, 2017, compared to net earnings attributable to the noncontrolling interest of $2.0 million for the three months ended September 30, 2016. The net losses attributable to the noncontrolling interest for the three months ended September 30, 2017 were primarily due to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, as well as the Mexico earthquake, compared to net earnings for the three months ended September 30, 2016. The net earnings attributable to the noncontrolling interest in the Atrium segment were $1.0 million and $3.5 million for the nine months ended September 30, 2017 and 2016, respectively. The reduction in the net earnings attributable to the noncontrolling interest for nine months ended September 30, 2017 was primarily due to lower earnings, as a result of the large losses in 2017 as discussed above. As at September 30, 2017 and 2016, Trident and Dowling had a combined 41.03% noncontrolling interest in the Atrium segment.

### *StarStone Segment*

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

The following is a discussion and analysis of the results of operations for the StarStone segment for the three and nine months ended September 30, 2017 and 2016, which are summarized below.

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | | | (in thousands of U.S. dollars) | | | |
| INCOME | | | | | | |
| Net premiums earned | $ 107,650 | $ 170,593 | $ (62,943) | $ 341,609 | $ 495,710 | $ (154,101) |
| Fee and commission income | — | — | — | 1,166 | — | 1,166 |
| Net investment income | 7,592 | 5,478 | 2,114 | 20,230 | 16,511 | 3,719 |
| Net realized and unrealized gains (losses) | 5,045 | (276) | 5,321 | 18,953 | 22,094 | (3,141) |
| Other income | 91 | 93 | (2) | 170 | 1,688 | (1,518) |
| | 120,378 | 175,888 | (55,510) | 382,128 | 536,003 | (153,875) |
| EXPENSES | | | | | | |
| Net incurred losses and LAE | 111,321 | 104,394 | 6,927 | 245,315 | 299,596 | (54,281) |
| Acquisition costs | 11,313 | 38,151 | (26,838) | 39,625 | 102,729 | (63,104) |
| General and administrative expenses | 32,605 | 24,363 | 8,242 | 99,576 | 85,829 | 13,747 |
| Interest expense | 382 | — | 382 | 1,648 | — | 1,648 |
| Net foreign exchange losses (gains) | (1,145) | 1,004 | (2,149) | 1,563 | 732 | 831 |
| | 154,476 | 167,912 | (13,436) | 387,727 | 488,886 | (101,159) |
| EARNINGS (LOSSES) BEFORE INCOME TAXES | (34,098) | 7,976 | (42,074) | (5,599) | 47,117 | (52,716) |
| INCOME TAXES | 78 | 1,571 | (1,493) | 3,648 | (4,417) | 8,065 |
| NET EARNINGS (LOSSES) | (34,020) | 9,547 | (43,567) | (1,951) | 42,700 | (44,651) |
| Less: Net (earnings) losses attributable to noncontrolling interest | 13,923 | (3,917) | 17,840 | 836 | (17,520) | 18,356 |
| NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ (20,097) | $ 5,630 | $ (25,727) | $ (1,115) | $ 25,180 | $ (26,295) |

*Overall Results*

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| StarStone[1] | $ (20,096) | $ 5,403 | $ (25,499) | $(1,156) | $24,378 | $(25,534) |
| Holding Company | (1) | 227 | (228) | 41 | 802 | (761) |
| NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ (20,097) | $ 5,630 | $ (25,727) | $(1,115) | $ 25,180 | $(26,295) |

[1] StarStone's net earnings (losses) before noncontrolling interest were $(34.1) million and $(2.0) million for three and nine months ended September 30, 2017, respectively, and $9.2 million and $41.3 million for the three and nine months ended September 30, 2016, respectively.

**Three Months Ended September 30:** Net losses were $20.1 million and net earnings were $5.6 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of $25.7 million. The decrease in net earnings was primarily due to increased net incurred losses and LAE due to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, partially offset by the 35% whole account quota share reinsurance agreement with KaylaRe. The 35% whole account quota share reinsurance agreement with KaylaRe reduced the impact of the hurricane exposure on net incurred losses and LAE by $22.7 million for the three months ended September 30, 2017. For the three months ended September 30, 2017, the StarStone segment recorded a net underwriting income impact of $48.4 million related to the large losses in 2017. In addition, net premiums earned and net earnings decreased due to the 35% whole account quota share reinsurance agreement with KaylaRe.

**Nine Months Ended September 30:** Net losses were $1.1 million and net earnings were $25.2 million for the nine months ended September 30, 2017 and 2016, respectively, a decrease of $26.3 million. This was primarily due to increased net incurred losses and LAE due to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, partially offset by the 35% whole account quota share reinsurance agreement with KaylaRe, as noted above. In addition, net premiums earned and net earnings decreased due to the 35% whole account quota share reinsurance agreement with KaylaRe.

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | (Favorable) Unfavorable | 2017 | 2016 | (Favorable) Unfavorable |
| Loss ratio [1] | 103.4% | 61.3% | 42.1 % | 71.9% | 60.8% | 11.1 % |
| Acquisition cost ratio [1] | 10.5% | 22.3% | (11.8)% | 11.6% | 20.7% | (9.1)% |
| Other operating expense ratio [1] | 30.3% | 14.3% | 16.0 % | 29.1% | 17.1% | 12.0 % |
| Combined ratio [1] | 144.2% | 97.9% | 46.3 % | 112.6% | 98.6% | 14.0 % |

[1] Refer to "Non-GAAP Financial Measures" for a description of how these ratios are calculated. The ratios are based upon the following amounts for StarStone, which exclude Holding Company amounts, for the three months ended September 30, 2017 and 2016, respectively: net premiums earned of $107,737 and $170,701, net incurred losses and LAE of $111,442 and $104,716, acquisition costs of $11,313 and $38,151, and other operating expenses of $32,687 and $24,363. The ratios are based upon the following amounts for StarStone, which exclude Holding Company amounts, for the nine months ended September 30, 2017 and 2016, respectively: net premiums earned of $342,056 and $495,370, net incurred losses and LAE of $246,070 and $301,376, acquisition costs of $39,625 and $102,729, and other operating expenses of $99,661 and $84,579.

**Three Months Ended September 30:** The combined ratio increased to 144.2% for the three months ended September 30, 2017 as compared to 97.9% for the three months ended September 30, 2016. The increase in the loss ratio is primarily due to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, which contributed 44.4 and 44.8 percentage points to the loss ratio and combined ratio, respectively. The decrease of 11.8 percentage points in the acquisition cost ratio is a result of the ceding commission on the 35% whole account quota share reinsurance arrangement with KaylaRe, which covers all business written during underwriting years 2016 and 2017. The increase of 16.0 percentage points in the other operating expense ratio is as a result of the combination of an increase in general and administrative expenses and lower net premiums earned after the reinsurance cession to KaylaRe.

**Nine Months Ended September 30:** The combined ratio increased by 14.0 percentage points for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. The loss ratio increased by 11.1 percentage points, primarily as a result of the large 2017 losses as noted above, which contributed 14.0 and 14.2 percentage points to the loss ratio and combined ratio, respectively. The acquisition cost ratio decreased as a result of the ceding commission on the cession to KaylaRe as noted above. The acquisition costs prior to the cession to KaylaRe were consistent with the prior year. The other operating expense ratio increased by 12.0 percentage points as a result of the combination of an increase in general and administrative expenses and lower net premiums earned after the reinsurance cession to KaylaRe.

The Holding Company result primarily includes general and administrative expenses related to the amortization of the definite-lived intangible assets.

Investment results are separately discussed below in "Investments."

*Gross Premiums Written:*

The following table provides gross premiums written by line of business for the StarStone segment for the three and nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Casualty | $ 70,264 | $ 66,824 | $ 3,440 | $ 208,331 | $ 200,365 | $ 7,966 |
| Marine | 42,148 | 43,697 | (1,549) | 167,793 | 156,061 | 11,732 |
| Property | 58,725 | 45,914 | 12,811 | 158,479 | 149,892 | 8,587 |
| Aerospace | 15,821 | 16,883 | (1,062) | 42,727 | 42,759 | (32) |
| Workers' Compensation | 13,049 | 18,759 | (5,710) | 73,777 | 83,412 | (9,635) |
| Total | $ 200,007 | $ 192,077 | $ 7,930 | $ 651,107 | $ 632,489 | $ 18,618 |

**Three Months Ended September 30:** Gross premiums written were $200.0 million and $192.1 million for the three months ended September 30, 2017 and 2016, respectively, an increase of $7.9 million. The property and casualty lines of business increased by $12.8 million and $3.4 million, respectively, primarily attributable to additional business written in the U.S. and Europe. Property includes $4.5 million in respect of a quota share of a reinsurance treaty covering U.S. mortgages, which is new business written in Bermuda. The workers' compensation line of business decreased due to the timing of contract renewals, and some opportunistic business written in 2016 that did not renew in 2017.

**Nine Months Ended September 30:** Gross premiums written were $651.1 million and $632.5 million for the nine months ended September 30, 2017 and 2016, respectively, an increase of $18.6 million primarily attributable to the additional marine, property and casualty lines of business written in the U.S. and Europe. The workers' compensation line of business decreased due to the timing of contract renewals, and some opportunistic business written in 2016 that did not renew in 2017.

*Net Premiums Earned:*

The following table provides net premiums earned by line of business for the StarStone segment for the nine months ended September 30, 2017 and 2016:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Casualty | $ 38,403 | $ 56,943 | $ (18,540) | $ 118,239 | $ 165,693 | $ (47,454) |
| Marine | 28,686 | 41,056 | (12,370) | 89,269 | 115,291 | (26,022) |
| Property | 23,988 | 30,135 | (6,147) | 73,354 | 96,275 | (22,921) |
| Aerospace | 8,914 | 18,359 | (9,445) | 27,234 | 51,973 | (24,739) |
| Workers' Compensation | 7,659 | 24,100 | (16,441) | 33,513 | 66,478 | (32,965) |
| Total | $ 107,650 | $ 170,593 | $ (62,943) | $ 341,609 | $ 495,710 | $ (154,101) |

**Three Months Ended September 30:** Net premiums earned for the StarStone segment for the three months ended September 30, 2017 decreased from 2016 by $62.9 million to $107.7 million. The decrease was attributable to the 35% whole account quota share reinsurance cession to KaylaRe which covers all business written during underwriting years 2016 and 2017. Net premiums earned before the cession to KaylaRe for the three months ended September 30, 2017 were broadly consistent with the three months ended September 30, 2016.

**Nine Months Ended September 30:** Net premiums earned for the StarStone segment for the nine months ended September 30, 2017 decreased from 2016 by $154.1 million to $341.6 million. The decrease across all lines of business was largely attributable to the KaylaRe 35% whole account quota share noted above. Net premiums earned before the cession to KaylaRe nine months ended September 30, 2017 were not materially different from the nine months ended September 30, 2016.

*Net Incurred Losses and LAE:*

**Three Months Ended September 30:** Net incurred losses and LAE for the three months ended September 30, 2017 and 2016 were $111.3 million and $104.4 million, respectively, an increase of $6.9 million. The increase was primarily due to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, less the impact of the reinsurance cession to KaylaRe. The increase in reserves was $101.0 million on a gross basis and $47.1 million net of third party reinsurance including the 35% whole account cession to KaylaRe. Net unfavorable prior year loss development for the three months ended September 30, 2017 was $0.8 million and net favorable prior year loss development was $1.3 million for the three months ended September 30, 2016. The loss ratio for the three months ended September 30, 2017 increased by 42.1 percentage points to 103.4%, primarily due to the large losses in 2017 as discussed above. The loss ratios in respect of the non-catastrophe book experienced minimal change from prior periods.

**Nine Months Ended September 30:** Net incurred losses and LAE for the nine months ended September 30, 2017 and 2016 were $245.3 million and $299.6 million, respectively, a decrease of $54.3 million. The decrease was primarily due to the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, less the impact of the reinsurance cession to KaylaRe as noted above. Net favorable prior year loss development for the nine months ended September 30, 2017 and 2016 was $1.7 million and $4.8 million, respectively. The loss ratio for the nine months ended September 30, 2017 increased by 11.1 percentage points to 71.9%, primarily due to the large losses in 2017 as discussed above.

*Acquisition Costs:*

**Three Months Ended September 30:** Acquisition costs were $11.3 million and $38.2 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of $26.8 million. The acquisition cost ratios for the three months ended September 30, 2017 and 2016 were 10.5% and 22.3%, respectively, a decrease of 11.8 percentage points primarily due to the ceding commission earned on the KaylaRe quota share reinsurance contract. The acquisition cost ratio excluding the ceding commission from the cession to KaylaRe was 20.2% for the three months ended September 30, 2017, a decrease compared to the 22.3% ratio for three months ended September 30, 2016.

**Nine Months Ended September 30:** Acquisition costs were $39.6 million and $102.7 million for the nine months ended September 30, 2017 and 2016, respectively, a decrease of $63.1 million. The acquisition cost ratios for the nine months ended September 30, 2017 and 2016 were 11.6% and 20.7%, respectively, a decrease of 9.1 percentage points primarily due to the ceding commission earned on the KaylaRe quota share reinsurance contract. The acquisition cost ratio excluding the ceding commission from the cession to KaylaRe was 20.9% for the nine months ended September 30, 2017, which is broadly consistent with the nine months ended September 30, 2016.

*General and Administrative Expenses:*

**Three Months Ended September 30:** General and administrative expenses for the three months ended September 30, 2017 and 2016 were $32.6 million and $24.4 million, respectively. The increase of $8.2 million for the three months ended September 30, 2017 was primarily due to an increase in compensation costs in respect of additional headcount for our growth strategies in certain lines of business in addition to an increase in information technology costs.

**Nine Months Ended September 30:** General and administrative expenses for the nine months ended September 30, 2017 and 2016 were $99.6 million and $85.8 million, respectively. The increase of $13.7 million for the nine months ended September 30, 2017 was primarily due to an increase in compensation costs in respect of additional headcount for our growth strategies in certain lines of business, the related costs associated with setting up new business operations and an increase in information technology costs.

*Noncontrolling Interest:*

**Three Months Ended September 30:** The net losses attributable to the noncontrolling interest in the StarStone segment were $13.9 million for the three months ended September 30, 2017, compared to net earnings attributable to the noncontrolling interest of $3.9 million for the three months ended September 30, 2016. The net losses attributable to the noncontrolling interest for the three months ended September 30, 2017 were largely due to the net losses from continuing operations, primarily resulting from the large losses in 2017, namely those attributable to hurricanes Harvey, Irma and Maria, partially offset by the impact of the 35% whole account quota share reinsurance arrangement with KaylaRe, compared to net earnings from continuing operations, for the three months ended September 30, 2016. As at September 30, 2017 and 2016, Trident and Dowling had a combined 41.03% noncontrolling interest in the StarStone segment.

**Nine Months Ended September 30:** The net losses attributable to the noncontrolling interest in the StarStone segment were $0.8 million for the nine months ended September 30, 2017, compared to net earnings attributable to the noncontrolling interest of $17.5 million for the nine months ended September 30, 2016. The net losses attributable to the noncontrolling interest for the nine months ended September 30, 2017 were due to the net losses as discussed above.

***Life and Annuities Segment***

For our Life and Annuities segment, our run-off strategy differs from the non-life run-off business, in particular because we have limited ability to shorten the duration of the liabilities in this business through early claims settlement, commutations or policy buy-backs. Instead, we hold the policies associated with the life and annuities business to their natural maturity or lapse and pay claims as they become due. The presentation of the results in this segment reflect the classification of Pavonia as discontinued operations and held-for-sale, and the sale of Laguna with its results and the loss on sale reflected as continuing operations. Following the sale of Pavonia, our continuing life business will comprise of Alpha term life products and the life settlements businesses.

The following is a discussion and analysis of our results of operations for our Life and Annuities segment for the three and nine months ended September 30, 2017 and 2016, which are summarized below.

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| INCOME | | | | | | |
| Net premiums earned | $ 1,187 | $ 1,290 | $ (103) | $ 3,656 | $ 4,189 | $ (533) |
| Net investment income | 1,567 | 7,094 | (5,527) | 11,920 | 17,554 | (5,634) |
| Net realized and unrealized losses | (1,045) | (3,452) | 2,407 | (7,563) | (2,701) | (4,862) |
| Other income | 10 | 409 | (399) | 169 | 578 | (409) |
| | 1,719 | 5,341 | (3,622) | 8,182 | 19,620 | (11,438) |
| EXPENSES | | | | | | |
| Life and annuity policy benefits | 1,060 | 1,682 | (622) | 5,048 | 227 | 4,821 |
| Acquisition costs | 149 | 132 | 17 | 730 | 460 | 270 |
| General and administrative expenses | 1,740 | 1,996 | (256) | 5,093 | 5,518 | (425) |
| Interest expense | 148 | 236 | (88) | 581 | 840 | (259) |
| Net foreign exchange losses | 877 | 101 | 776 | 2,030 | 434 | 1,596 |
| Loss on sale of subsidiary | 6,740 | — | 6,740 | 16,349 | — | 16,349 |
| | 10,714 | 4,147 | (173) | 29,831 | 7,479 | 6,003 |
| EARNINGS (LOSSES) BEFORE INCOME TAXES | (8,995) | 1,194 | (10,189) | (21,649) | 12,141 | (33,790) |
| INCOME TAXES | 14 | 1 | 13 | 5 | (13) | 18 |
| NET EARNINGS (LOSSES) FROM CONTINUING OPERATIONS | (8,981) | 1,195 | (10,176) | (21,644) | 12,128 | (33,772) |
| NET EARNINGS (LOSSES) FROM DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE | 3,495 | 3,897 | (402) | (1,005) | 6,480 | (7,485) |
| NET EARNINGS (LOSSES) ATTRIBUTABLE TO ENSTAR GROUP LIMITED | $ (5,486) | $ 5,092 | $ (10,578) | $ (22,649) | $ 18,608 | $ (41,257) |

*Overall Results:*

**Three and Nine Months Ended September 30:** Net earnings (losses) were $(5.5) million and $5.1 million for the three months ended September 30, 2017 and 2016, respectively. Net earnings (losses) were $(22.6) million and $18.6 million for the nine months ended September 30, 2017 and 2016, respectively. The net losses in this segment for the three and nine months ended September 30, 2017 were primarily due to the loss on sale of Laguna of $6.7 million and $16.3 million in the three and nine months ended September 30, 2017, respectively, and and impairments on life settlements as discussed below, as well as operating losses in Pavonia and Alpha. The losses in Pavonia primarily related to term life products and are expected to be offset in the future by the expected gain recognizable upon the sale of the business. Further information regarding Pavonia is included in Note 3 - "Held-For-Sale Businesses and Divestitures" included within Item 1 of this Quarterly Report on Form 10-Q. Our life settlements business contributed net earnings (losses) of ($0.5) million and $1.5 million for the three and nine months ended September 30, 2017, respectively. The losses on life settlements for the three months ended September 30, 2017 included impairment charges of $1.3 million as a result of updated medical underwriting and increases in premiums. There was no change to our impairment methodology during the nine months ended September 30, 2017.

**Investable Assets**

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

Investable assets were $9.7 billion as at September 30, 2017 as compared to $8.4 billion as at December 31, 2016, an increase of 15.5%. The increase was primarily due to the investments and funds held balance acquired in relation to the QBE and RSA transactions.

A description of our investment strategies is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Investments" in our Annual Report on Form 10-K for the year ended December 31, 2016. In addition, during the nine months ended September 30, 2017, we have been implementing strategies to selectively increase the duration in certain investment portfolios.

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### *Composition of Investment Portfolio By Asset Class*

The following table summarizes the fair value and composition of our investment portfolio by asset class as at September 30, 2017 and December 31, 2016:

| | September 30, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | | | | Fair Value | | | |
| | Investment Grade [1] | Non-Investment Grade [2] | Total | % | Investment Grade [1] | Non-Investment Grade [2] | Total | % |
| | (in thousands of U.S. dollars, except percentages) | | | | | | | |
| **Fixed maturity and short-term investments, trading and available-for-sale** | | | | | | | | |
| U.S. government & agency | $ 955,584 | $ — | $ 955,584 | 12.9% | $ 852,984 | $ — | $ 852,984 | 14.1% |
| Non-U.S. government | 629,010 | 4,066 | 633,076 | 8.5% | 352,786 | — | 352,786 | 5.8% |
| Corporate | 3,159,126 | 179,143 | 3,338,269 | 44.9% | 2,385,295 | 160,682 | 2,545,977 | 42.2% |
| Municipal | 94,644 | — | 94,644 | 1.3% | 53,757 | — | 53,757 | 0.9% |
| Residential mortgage-backed | 274,312 | 89,589 | 363,901 | 4.9% | 373,957 | 98 | 374,055 | 6.2% |
| Commercial mortgage-backed | 358,523 | 23,842 | 382,365 | 5.1% | 199,827 | 17,385 | 217,212 | 3.6% |
| Asset-backed | 439,672 | 83,816 | 523,488 | 7.0% | 409,671 | 72,485 | 482,156 | 8.0% |
| Total | 5,910,871 | 380,456 | 6,291,327 | 84.6% | 4,628,277 | 250,650 | 4,878,927 | 80.8% |
| **Equities** | | | | | | | | |
| U.S. | | | 109,412 | 1.5% | | | 95,047 | 1.6% |
| International | | | 238 | —% | | | — | —% |
| Total | | | 109,650 | 1.5% | | | 95,047 | 1.6% |
| **Other investments** | | | | | | | | |
| Private equity funds | | | 284,164 | 3.8% | | | 300,529 | 5.0% |
| Fixed income funds | | | 227,917 | 3.1% | | | 249,023 | 4.1% |
| Fixed income hedge funds | | | 70,047 | 0.9% | | | 85,976 | 1.4% |
| Equity funds | | | 241,598 | 3.3% | | | 223,571 | 3.7% |
| CLO equities | | | 55,411 | 0.7% | | | 61,565 | 1.0% |
| CLO equity funds | | | 13,042 | 0.2% | | | 15,440 | 0.3% |
| Private credit funds | | | 9,832 | 0.1% | | | — | —% |
| Other | | | 853 | —% | | | 943 | —% |
| Total | | | 902,864 | 12.1% | | | 937,047 | 15.5% |
| **Other investments** | | | | | | | | |
| Life settlements | | | 131,499 | 1.8% | | | 129,474 | 2.1% |
| **Total investments** | **$ 5,910,871** | **$ 380,456** | **$ 7,435,340** | **100.0%** | **$ 4,628,277** | **$ 250,650** | **$ 6,040,495** | **100.0%** |

[1] Investment Grade securities are rated BBB- or higher.

[2] Non-Investment Grade include non-rated securities with a fair value of $18.0 million and $28.1 million as at September 30, 2017 and December 31, 2016, respectively.

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

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

The following table summarizes the fair value and composition of our funds held - directly managed portfolio by asset class as at September 30, 2017 and December 31, 2016:

| | September 30, 2017 | | | | December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value | | | | Fair Value | | | |
| | Investment Grade [1] | Non-Investment Grade | Total | % | Investment Grade [1] | Non-Investment Grade | Total | % |
| **Fixed maturity investments:** | | | | | | | | |
| U.S. government & agency | $ 64,712 | $ — | $ 64,712 | 5.4% | $ 47,885 | $ — | $ 47,885 | 4.8% |
| Non-U.S. government | 2,960 | — | 2,960 | 0.3% | 5,961 | — | 5,961 | 0.6% |
| Corporate | 721,313 | — | 721,313 | 60.5% | 663,556 | — | 663,556 | 66.8% |
| Municipal | 57,964 | — | 57,964 | 4.9% | 38,927 | — | 38,927 | 3.9% |
| Residential mortgage-backed | 30,346 | — | 30,346 | 2.6% | — | — | — | —% |
| Commercial mortgage-backed | 207,851 | — | 207,851 | 17.4% | 151,395 | — | 151,395 | 15.2% |
| Asset-backed | 92,281 | — | 92,281 | 7.7% | 79,806 | — | 79,806 | 8.0% |
| Total | 1,177,427 | — | 1,177,427 | 98.8% | 987,530 | — | 987,530 | 99.3% |
| Other assets | — | — | 14,496 | 1.2% | — | — | 7,135 | 0.7% |
| **Total funds held - directly managed** | $ 1,177,427 | $ — | $ 1,191,923 | 100.0% | $ 987,530 | $ — | $ 994,665 | 100.0% |

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

### *Composition of Investable Assets By Segment*

Across all of our segments, we strive to structure our investments in a manner that recognizes our liquidity needs for future liabilities. In that regard, we attempt to correlate the maturity and duration of our investment portfolio to our general liability profile. If our liquidity needs or general liability profile unexpectedly change, we may adjust the structure of our investment portfolio to meet our revised expectations. The following tables summarize the composition of total invested assets by segment as at September 30, 2017 and December 31, 2016:

| | Non-life Run-off | Atrium | StarStone | Life and Annuities | Total |
|---|---|---|---|---|---|
| | (in thousands of U.S. dollars) | | | | |
| **September 30, 2017** | | | | | |
| Short-term investments, trading, at fair value | $ 228,676 | $ 2,236 | $ 23,339 | $ — | $ 254,251 |
| Fixed maturities, trading, at fair value | 4,564,548 | 73,990 | 1,176,453 | — | 5,814,991 |
| Fixed maturities, available-for-sale, at fair value | 55 | 96,729 | — | 125,301 | 222,085 |
| Equities, trading, at fair value | 102,402 | 2,056 | 5,192 | — | 109,650 |
| Other investments, at fair value | 717,844 | 7,859 | 161,859 | 15,302 | 902,864 |
| Other investments, at cost | — | — | — | 127,562 | 127,562 |
| Total investments | 5,613,525 | 182,870 | 1,366,843 | 268,165 | 7,431,403 |
| Cash and cash equivalents | 579,345 | 55,482 | 287,081 | 27,448 | 949,356 |
| Funds held - directly managed | 1,191,923 | — | — | — | 1,191,923 |
| Funds held by reinsured companies | 51,055 | 25,985 | 14,760 | — | 91,800 |
| Total investable assets | $ 7,435,848 | $ 264,337 | $ 1,668,684 | $ 295,613 | $ 9,664,482 |
| Duration (in years) | 4.83 | 1.58 | 2.13 | 2.67 | 4.21 |
| Average Credit Rating | A+ | AA- | A | A+ | A+ |

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

### *Credit Quality and Maturity Profiles*

As at September 30, 2017 and December 31, 2016, our investment portfolio had an average credit quality rating of A+. As at September 30, 2017 and December 31, 2016, our fixed maturity investments rated lower than BBB- comprised 4.9% and 3.7% of our total investment portfolio, respectively. A detailed schedule of average credit ratings by asset class as at September 30, 2017 is included in Note 4 - "Investments - Credit Ratings" and Note 5 - "Funds Held - Directly Managed - Credit Ratings" of our unaudited condensed consolidated financial statements within Item 1 of this Quarterly Report on Form 10-Q. Schedules of maturities by asset class are included in Note 4 - "Investments" and Note 5 - "Funds Held - Directly Managed" of our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

### *Eurozone Exposure*

As at September 30, 2017 and December 31, 2016, we owned $21.3 million and $15.0 million, respectively, of investments in fixed maturity securities issued by the sovereign governments of Italy, Ireland and Spain.

***Investment Results - Consolidated***

The following table summarizes our investment results for the three and nine months ended September 30, 2017 and 2016.

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **Increase (decrease)** | **2017** | **2016** | **Increase (decrease)** |
| | **(in thousands of U.S. dollars)** | | | | | |
| Net investment income | $ 52,028 | $ 48,022 | $ 4,006 | $ 150,184 | $ 143,234 | $ 6,950 |
| Net realized and unrealized gains | 29,301 | 66,608 | (37,307) | 139,697 | 139,388 | 309 |
| | | | | | | |
| **Annualized Investment Book Yield** | | | | | | |
| Annualized net investment income | 208,112 | 192,088 | 16,024 | 200,245 | 190,979 | 9,266 |
| Average aggregate invested assets, at cost[(1)] | 9,596,802 | 8,656,338 | 940,464 | 9,436,138 | 8,734,605 | 701,533 |
| Annualized investment book yield | 2.17% | 2.22% | (0.05)% | 2.12% | 2.19% | (0.07)% |
| | | | | | | |
| **Financial Statement Portfolio Return** | | | | | | |
| Total financial statement return[(2)] | 81,329 | 114,630 | (33,301) | 289,881 | 282,622 | 7,259 |
| Average aggregate invested assets, at fair value[(1)] | 9,683,862 | 8,669,915 | 1,013,947 | 9,473,669 | 8,718,984 | 754,685 |
| Financial statement portfolio return | 0.84% | 1.32% | (0.48)% | 3.06% | 3.24% | (0.18)% |

[(1)] These amounts are an average of the amounts disclosed in our quarterly U.S. GAAP consolidated financial statements.

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

**Three and Nine Months Ended September 30:** Net investment income increased by $4.0 million during the three months ended September 30, 2017 compared to the three months ended September 30, 2016 due to an increase in average investable assets, partially offset by a decrease of 5 basis points in the book yield we obtained on our assets. Net investment income increased by $7.0 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 due to an increase in average investable assets, partially offset by a decrease of 7 basis points in the book yield we obtained on our assets. The increase in average investable assets was primarily due to our transactions with RSA and QBE. The decrease in yield was primarily due to the changing mix in asset allocation, as the British Pound assets acquired in the RSA transaction carry a lower yield than our existing portfolio.

Net realized and unrealized gains were $29.3 million and $66.6 million for the three months ended September 30, 2017 and 2016, respectively, a decrease of $37.3 million. Included in net realized and unrealized gains are the following items:

- net realized gains of $5.4 million for the three months ended September 30, 2017, compared to net realized gains of $4.9 million for the three months ended September 30, 2016;

- net unrealized losses on fixed maturity securities, trading, of $10.7 million for the three months ended September 30, 2017, compared to net unrealized gains of $12.2 million for the three months ended September 30, 2016, a decrease of $22.9 million, primarily driven by increased treasury yields in the current period;

- net unrealized gains on equity securities, trading of $2.7 million for the three months ended September 30, 2017, compared to net unrealized gains of $2.8 million for the three months ended September 30, 2016, a decrease of $0.1 million;

- change in fair value of other investments of $27.8 million for the three months ended September 30, 2017, compared to change in fair value of other investments of $46.7 million for the three months ended September 30, 2016, a decrease of $18.9 million, primarily driven by lower returns in the CLO equity, CLO equity funds, hedge funds, equity funds and fixed income funds; and

- change in fair value of embedded derivative on funds held and change in fair value option on funds held of $4.2 million for the three months ended September 30, 2017, compared to $nil for the three months ended September 30, 2016, an increase of $4.2 million, primarily driven by new acquisitions related to QBE and RSA for which we elected the fair value option.

Net realized and unrealized gains were $139.7 million and $139.4 million for the nine months ended September 30, 2017 and 2016, respectively, an increase of $0.3 million. Included in net realized and unrealized gains are the following items:

- net realized gains of $1.3 million for the nine months ended September 30, 2017, compared to net realized gains of $5.7 million for the nine months ended September 30, 2016;
- net unrealized gains on fixed maturity securities, trading of $23.8 million for the nine months ended September 30, 2017, compared to net unrealized gains of $93.2 million for the nine months ended September 30, 2016, a decrease of $69.4 million, primarily driven by decreases in the yield curve in the comparative period;
- net unrealized gains on equity securities, trading of $13.2 million for the nine months ended September 30, 2017, compared to net unrealized gains of $4.9 million for the nine months ended September 30, 2016, an increase of $8.3 million, primarily driven by strong returns in the equity markets in the first nine months of the year;
- change in fair value of other investments of $71.0 million for the nine months ended September 30, 2017, compared to change in fair value of other investments of $35.6 million for the nine months ended September 30, 2016, an increase of $35.4 million, primarily driven by higher returns in our private equity funds and equity funds, partially offset by lower returns in our CLO strategy; and
- change in fair value of embedded derivative on funds held and change in fair value option on funds held of $30.4 million for the nine months ended September 30, 2017, compared to $nil for the nine months ended September 30, 2016, an increase of $30.4 million, primarily driven by new acquisitions related to QBE and RSA for which we elected the fair value option.

***Investment Results - By Segment***

The following tables summarize our investment results by segment for the three and nine months ended September 30, 2017 and 2016. These tables have been prepared on a basis consistent with the consolidated table above.

*Non-life Run-off*

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | | | (in thousands of U.S. dollars) | | | |
| Net investment income | $ 42,829 | $ 35,346 | $ 7,483 | $ 118,130 | $ 109,157 | $ 8,973 |
| Net realized and unrealized gains | 25,016 | 70,374 | (45,358) | 127,130 | 119,925 | 7,205 |
| | | | | | | |
| **Annualized Investment Book Yield** | | | | | | |
| Annualized net investment income | 171,316 | 141,384 | 29,932 | 157,507 | 145,543 | 11,964 |
| Average aggregate invested assets, at cost | 7,396,977 | 6,389,668 | 1,007,309 | 7,228,483 | 6,498,378 | 730,105 |
| Annualized investment book yield | 2.32% | 2.21% | 0.11 % | 2.18% | 2.24% | (0.06)% |
| | | | | | | |
| **Financial Statement Portfolio Return** | | | | | | |
| Total financial statement return | 67,845 | 105,720 | (37,875) | 245,260 | 229,082 | 16,178 |
| Average aggregate invested assets, at fair value | 7,470,447 | 6,407,487 | 1,062,960 | 7,262,195 | 6,496,799 | 765,396 |
| Financial statement portfolio return | 0.91% | 1.65% | (0.74)% | 3.38% | 3.53% | (0.15)% |

**Three and Nine Months Ended September 30:** Net investment income increased by $7.5 million during the three months ended September 30, 2017 compared to the three months ended September 30, 2016 due to an increase in average investable assets and an increase of 11 basis points in the book yield we obtained on our assets. Net investment income increased by $9.0 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 due to an increase in average investable assets, partially offset by a decrease of 6 basis points in the book yield we obtained on our assets. The increase in investable assets was primarily due to our transactions with RSA and QBE. The increase in yield for the three months ended September 30, 2017 was due to the changing mix in the asset allocation as we executed on our investment strategies. The decrease in yield for the nine months ended September 30, 2017 was primarily due to the acquisition of the RSA transaction as the British Pound assets acquired carry a lower yield than our existing portfolio.

The decrease of $45.4 million in net realized and unrealized gains for the three months ended September 30, 2017 was primarily comprised of net unrealized gains of $19.8 million in the three months ended September 30, 2017 compared to net unrealized gains of $66.9 million in the three months ended September 30, 2016, and an increase in net realized gains of $1.7 million. The increase of $7.2 million in net realized and unrealized gains for the nine months ended September 30, 2017 was comprised of net unrealized gains of $123.8 million in the nine months ended September 30, 2017 compared to net unrealized gains of $117.6 million in the nine months ended September 30, 2016, and an increase in net realized gains of $1.0 million. The decrease in net unrealized gains for the three months ended September 30, 2017 was primarily due to lower returns on our fixed maturity and other investment portfolios, including our investments in CLO equities, fixed income and equity funds. The increase in net unrealized gains for the nine months ended September 30, 2017 was primarily due to higher returns on our equities and other investment portfolios, including private equities and private equity funds, partially offset by the lower returns on our fixed maturity portfolio. The decreases in the valuation of fixed maturities for the three and nine months ended September 30, 2017 were principally driven by the impact of increased treasury yields.

*Atrium*

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | | | | |
| Net investment income | $ 847 | $ 853 | $ (6) | $ 2,832 | 2,042 | $ 790 |
| Net realized and unrealized gains (losses) | 285 | (38) | 323 | 1,177 | 70 | 1,107 |
| | | | | | | |
| **Annualized Investment Book Yield** | | | | | | |
| Annualized net investment income | 3,388 | 3,412 | (24) | 3,776 | 2,723 | 1,053 |
| Average aggregate invested assets, at cost | 261,339 | 309,857 | (48,518) | 267,368 | 311,769 | (44,401) |
| Annualized investment book yield | 1.30% | 1.10% | 0.20% | 1.41% | 0.87% | 0.54% |
| | | | | | | |
| **Financial Statement Portfolio Return** | | | | | | |
| Total financial statement return | 1,132 | 815 | 317 | 4,009 | 2,112 | 1,897 |
| Average aggregate invested assets, at fair value | 260,853 | 307,124 | (46,271) | 265,075 | 308,261 | (43,186) |
| Financial statement portfolio return | 0.43% | 0.27% | 0.16% | 1.51% | 0.69% | 0.82% |

**Three and Nine Months Ended September 30:** Atrium's investment results were relatively consistent for the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016. Despite the average invested assets being lower than last year, investment results improved due to an increase in book yield due to the changing mix in asset allocation.

*StarStone*

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | | | (in thousands of U.S. dollars) | | | |
| Net investment income | $ 7,592 | $ 5,478 | $ 2,114 | $ 20,230 | $ 16,511 | $ 3,719 |
| Net realized and unrealized gains (losses) | 5,045 | (276) | 5,321 | 18,953 | 22,094 | (3,141) |
| | | | | | | |
| **Annualized Investment Book Yield** | | | | | | |
| Annualized net investment income | 30,368 | 21,912 | 8,456 | 26,973 | 22,015 | 4,958 |
| Average aggregate invested assets, at cost | 1,649,230 | 1,632,422 | 16,808 | 1,639,623 | 1,599,973 | 39,650 |
| Annualized investment book yield | 1.84% | 1.34% | 0.50% | 1.65% | 1.38% | 0.27 % |
| | | | | | | |
| **Financial Statement Portfolio Return** | | | | | | |
| Total financial statement return | 12,637 | 5,202 | 7,435 | 39,183 | 38,605 | 578 |
| Average aggregate invested assets, at fair value | 1,659,611 | 1,629,019 | 30,592 | 1,643,356 | 1,588,866 | 54,490 |
| Financial statement portfolio return | 0.76% | 0.32% | 0.44% | 2.38% | 2.43% | (0.05)% |

**Three and Nine Months Ended September 30:** Net investment income increased by $2.1 million for the three months ended September 30, 2017 as compared to the three months ended September 30, 2016 due to an increase in our average investable assets and an increase of 50 basis points in the book yield we obtained on those assets. Net investment income increased by $3.7 million in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 due to an increase in our average investable assets and an increase of 27 basis points in the book yield we obtained on those assets. The increase in yield was primarily due to the changing mix in asset allocation as we executed on our investment strategies.

The increase of $5.3 million in net realized and unrealized gains during the three months ended September 30, 2017 was comprised of net increases in unrealized gains of $6.6 million and net decreases in realized gains of $1.3 million. The decrease in net realized and unrealized gains of $3.1 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2017 was comprised of net increases in unrealized gains of $2.3 million and net decreases in realized gains of $5.4 million. The increase in net unrealized gains for the three months ended September 30, 2017 was due to tightening credit spreads offsetting the increase in yields. The decrease in realized gains for the nine months ended September 30, 2017 was due to the losses on the sales of residential mortgage-backed securities compared to gains on U.S. Treasuries in 2016.

*Life and Annuities*

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) | 2017 | 2016 | Increase (decrease) |
| | | | (in thousands of U.S. dollars) | | | |
| Net investment income | $ 1,567 | $ 7,094 | $ (5,527) | $ 11,920 | $ 17,554 | $ (5,634) |
| Net realized and unrealized losses | (1,045) | (3,452) | 2,407 | (7,563) | (2,701) | (4,862) |
| | | | | | | |
| **Annualized Investment Book Yield** | | | | | | |
| Annualized net investment income | 6,268 | 28,376 | (22,108) | 15,893 | 23,405 | (7,512) |
| Average aggregate invested assets, at cost | 289,256 | 324,391 | (35,135) | 300,664 | 324,485 | (23,821) |
| Annualized investment book yield | 2.17% | 8.75% | (6.58)% | 5.29% | 7.21% | (1.92)% |
| | | | | | | |
| **Financial Statement Portfolio Return** | | | | | | |
| Total financial statement return | 522 | 3,642 | (3,120) | 4,357 | 14,853 | (10,496) |
| Average aggregate invested assets, at fair value | 292,951 | 326,285 | (33,334) | 303,043 | 325,058 | (22,015) |
| Financial statement portfolio return | 0.18% | 1.12% | (0.94)% | 1.44% | 4.57% | (3.13)% |

**Three and Nine Months Ended September 30:** Net investment income decreased by $5.5 million and $5.6 million during the three and nine months ended September 30, 2017, respectively, due to a decrease in earnings from life settlements. Net realized and unrealized losses increased by $2.4 million during the three months ended September 30, 2017, primarily due to impairment charges of $1.3 million on life settlements. Net realized and unrealized losses decreased by $4.9 million during the nine months ended September 30, 2017, primarily due to impairment charges of $7.5 million on life settlements.

**Liquidity and Capital Resources**

***Overview***

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

Our capital resources as at September 30, 2017 included shareholders' equity of $3.0 billion, redeemable noncontrolling interest of $0.4 billion classified as temporary equity, and debt obligations of $0.7 billion. The redeemable noncontrolling interest may be settled in the future in cash or Enstar ordinary shares, at our option. Based on our current loss reserves position, our portfolios of in-force insurance and reinsurance business, and our investment positions, we believe we are well capitalized.

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

During the three months ended September 30, 2017, we filed an automatic shelf registration statement with the SEC to allow us to conduct future offerings of certain securities, if desired. This shelf registration statement allows us to issue debt, equity and other securities, whereas our previous shelf registration statement, which expired during the three months ended September 30, 2017, registered only debt securities.

***Cash and Cash Equivalents***

As at September 30, 2017 and December 31, 2016, we had total cash and cash equivalents, and restricted cash and cash equivalents of approximately $949.4 million and $1,318.6 million, respectively. We expect our cash flows, together with our existing capital base and cash and investments acquired on the purchase of insurance and reinsurance subsidiaries, to be sufficient to meet cash requirements and to operate our business. For a description of our sources and uses of cash in our holding company and operating companies, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - Liquidity and Capital Resources" in our Annual Report on Form 10-K for the year ended December 31, 2016. Our cash and cash equivalents are comprised mainly of cash, fixed deposits, commercial paper with maturities of less than three months, and money market funds.

As at September 30, 2017, we had $624.5 million of cash and cash equivalents, excluding restricted cash that supports insurance operations, and included in this amount was $542.9 million held by foreign subsidiaries outside of Bermuda. Based on our group's current corporate structure with a Bermuda domiciled parent company and the jurisdictions in which we operate, if the cash and cash equivalents held by our foreign subsidiaries were to be distributed to us, as dividends or otherwise, such amounts would not be subject to incremental income taxes, however in certain circumstances withholding taxes may be imposed by some jurisdictions, including the United States. Based on existing tax laws, regulations and our current intentions, there was no accrual as at September 30, 2017 for any material withholding taxes on dividends or other distributions, as described in "Note 18 - Taxation" in the notes to our consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

The following table summarizes our consolidated cash flows provided by (used in) operating, investing and financing activities for the nine months ended September 30, 2017 and 2016:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2017 | 2016 | Increase (decrease) |
| | (in thousands of U.S. dollars) | | |
| Cash provided by (used in): | | | |
| Operating activities | $ (482,246) | $ (95,447) | $ (386,799) |
| Investing activities | 164,204 | 64,273 | 99,931 |
| Financing activities | (57,539) | (32,202) | (25,337) |
| Effect of exchange rate changes on cash | 6,292 | (3,488) | 9,780 |
| Net decrease in cash and cash equivalents | (369,289) | (66,864) | (302,425) |
| Cash and cash equivalents, beginning of period | 1,318,645 | 1,295,169 | 23,476 |
| Change in cash of businesses held-for-sale | — | — | — |
| Cash and cash equivalents, end of period | $ 949,356 | $ 1,228,305 | $ (278,949) |

Details of our consolidated cash flows are included in "Item 1. Financial Statements - Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 (unaudited)."

**2017 versus 2016:** Cash and cash equivalents decreased by $369.3 million during the nine months ended September 30, 2017 compared with a decrease of $66.9 million during the nine months ended September 30, 2016.

For the nine months ended September 30, 2017, cash and cash equivalents decreased by $369.3 million, as cash used in operating activities of $482.2 million and cash used in financing activities of $57.5 million, was partially offset by cash provided by investing activities of $164.2 million. Cash used in operations is largely a result of the timing of loss payments across all of our segments. Cash used in financing activities for the nine months ended September 30, 2017 related primarily to the repayment of the remaining principal on the Sussex term loan ("Sussex Facility"). Dividends of $27.5 million were also paid to redeemable noncontrolling interests during the nine months ended September 30, 2017. In addition, during the nine months ended September 30, 2017 we raised $347.1 million of proceeds, net of issuance costs, from the public offering of Senior Notes, and those proceeds were used to repay a portion of our revolving credit facility. Cash provided by investing activities for the nine months ended September 30, 2017 primarily related to the net redemptions of other investments of $104.5 million.

For the nine months ended September 30, 2016, cash and cash equivalents decreased by $66.9 million, as cash used in operating activities of $95.4 million and cash used in financing activities of $32.2 million was partially offset by cash provided by investing activities of $64.3 million. Cash used in financing activities for the nine months ended September 30, 2016 was primarily related to repayments of $30.5 million related to the Sussex Facility and net drawdowns of $1.7 million under the Enstar Group Limited Revolving Credit Facility. Cash provided by investing activities for the nine months ended September 30, 2016 primarily related to the net redemptions of other investments of $45.0 million.

***Investments***

As at September 30, 2017 and December 31, 2016, we had total investments of approximately $7.4 billion and $6.0 billion, respectively. The increase is primarily related to the transactions with QBE and RSA.

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

***Reinsurance Balances Recoverable***

As at September 30, 2017 and December 31, 2016, we had reinsurance balances recoverable of $2.1 billion and $1.5 billion, respectively. The increase is primarily related to the transactions with QBE and RSA.

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

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

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

***Funds Held by Reinsured Companies***

As at September 30, 2017 and December 31, 2016, we had funds held - directly managed of $1.2 billion and $1.0 billion, respectively. The increase was primarily due to the completion on January 11, 2017 of our transaction with QBE to reinsure portfolios of QBE's run-off business, which was completed on a partial funds held basis. Our funds held - directly managed is carried on our consolidated balance sheets at fair value due to a variable investment crediting rate on the Allianz transaction and the election of the fair value option for the reinsurance transaction with QBE. For further information regarding our funds held - directly managed, refer to Note 5 - "Funds held - directly managed" in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q.

In addition, as at September 30, 2017 and December 31, 2016, we had funds held by reinsured companies of $91.8 million and $82.1 million, respectively, which are carried at cost with a fixed crediting rate.

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

***Debt Obligations***

We utilize loan facilities primarily for acquisitions, loss portfolio transfer reinsurance transactions and, from time to time, for general corporate purposes. For information regarding our loan facilities, including our loan covenants, refer to "Note 13 - Debt Obligations" in the notes to our consolidated financial statements included within Item 1 of this Quarterly Report on Form 10-Q. Debt obligations as at September 30, 2017 and December 31, 2016 were $653.5 million and $673.6 million, respectively.

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

Our main facility is the EGL Revolving Credit Facility, originated on September 16, 2014 for a five-year term, and most recently amended on March 20, 2017. This facility is among the Company and certain of its subsidiaries, as borrowers and as guarantors, and various financial institutions. We are permitted to borrow up to an aggregate of $831.3 million. The individual outstanding loans under the facility are unsecured short-term floating rate loans with an interest rate of LIBOR plus an applicable margin and utilization fee as set forth in the credit facility agreement. As at September 30, 2017, $600.2 million of the total capacity was available for use under the EGL Revolving Credit Facility. As at September 30, 2017 and December 31, 2016, there were borrowings of €50.0 million (approximately $59.0 million) and €75.0 million (approximately $88.5 million), respectively, under the facility that were designated as non-derivative hedges of our net investment in certain subsidiaries whose functional currency is denominated in Euros. During the three months ended September 30, 2017, we repaid €25.0 million (approximately $29.5 million) of the non-derivative hedge and reclassified the related foreign exchange losses of $1.1 million previously deferred in CTA within accumulated other comprehensive income (loss) into earnings. Subsequent to September 30, 2017, we utilized $170.0 million and repaid $53.0 million, bringing unutilized capacity under this facility to $483.2 million.

We also have a three-year unsecured term loan (the "EGL Term Loan Facility") that was originated on November 18, 2016. As at September 30, 2017, the outstanding principal under this facility was $75.0 million, and there was no unutilized capacity.

The Sussex Facility, a four-year term loan that was originated on December 24, 2014 with two financial institutions, was fully repaid during the nine months ended September 30, 2017. As at December 31, 2016, the outstanding principal under this facility was $63.5 million.

### *Contractual Obligations*

The following table summarizes, as at September 30, 2017, our future payments under contractual obligations and estimated payments for losses and LAE and policy benefits by expected payment date and updates the table on page 76 of our Annual Report on Form 10-K for the year ended December 31, 2016. The table excludes short-term liabilities and includes only obligations that are expected to be settled in cash.

| | Total | Less than 1 Year | 1 - 3 years | 3 - 5 years | More than 5 Years |
|---|---|---|---|---|---|
| | | | (in millions of U.S. dollars) | | |
| **Operating Activities** | | | | | |
| Estimated gross reserves for losses and LAE [1] | $ 8,110.3 | $ 1,429.6 | $ 2,368.8 | $ 1,203.5 | $ 3,108.4 |
| Policy benefits for life and annuity contracts [2] | 323.3 | 21.3 | 41.2 | 38.4 | 222.4 |
| Operating lease obligations | 46.7 | 11.2 | 17.5 | 9.8 | 8.2 |
| **Investing Activities** | | | | | |
| Investment commitments | 167.6 | 70.9 | 70.0 | 26.7 | — |
| **Financing Activities** | | | | | |
| Loan repayments (including estimated interest payments) | 758.5 | 35.6 | 349.3 | 373.6 | — |
| **Total** | $ 9,406.4 | $ 1,568.6 | $ 2,846.8 | $ 1,652.0 | $ 3,339.0 |

(1) The reserves for losses and LAE represent management's estimate of the ultimate cost of settling losses. The estimation of losses is based on various complex and subjective judgments. Actual losses paid may differ, perhaps significantly, from the reserve estimates reflected in our financial statements. Similarly, the timing of payment of our estimated losses is not fixed and there may be significant changes in actual payment activity. The assumptions used in estimating the likely payments due by period are based on our historical claims payment experience and industry payment patterns, but due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid in any such period can be significantly different from the amounts disclosed above. The amounts in the above table represent our estimates of known liabilities as at September 30, 2017 and do not take into account corresponding reinsurance recoverable amounts that would be due to us. Furthermore, certain of the reserves included in the unaudited condensed consolidated financial statements as at September 30, 2017 were acquired by us and initially recorded at fair value with subsequent amortization, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect the fair value adjustment in the amount payable.

(2) Policy benefits for life and annuity contracts recorded in our unaudited condensed consolidated balance sheet as at September 30, 2017 of $118.6 million are computed on a discounted basis, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect a discount of the amount payable.

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

### *Off-Balance Sheet Arrangements*

At September 30, 2017, we did not have any off-balance sheet arrangements, as defined by Item 303(a)(4) of Regulation S-K.

## Critical Accounting Policies

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

*Fair Value Option - Insurance Contracts*

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

The fair value of the liability for losses and LAE and reinsurance recoverable under these contracts is presented separately in our consolidated balance sheet as at September 30, 2017. Changes in the fair value of the liability for losses and LAE and reinsurance recoverable are included in net incurred losses and LAE in our consolidated statement of operations.

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

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

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

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

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

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

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

## Cautionary Statement Regarding Forward-Looking Statements

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

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

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

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

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

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

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

### Interest Rate Risk

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

The following table summarizes the aggregate hypothetical change in fair value from an immediate parallel shift in the treasury yield curve, assuming credit spreads remain constant, in our fixed maturity and short-term investments portfolio classified as trading and available-for-sale as at September 30, 2017 and December 31, 2016:

| | Interest Rate Shift in Basis Points | | | | |
|---|---|---|---|---|---|
| **As at September 30, 2017** | **-100** | **-50** | **—** | **+50** | **+100** |
| | (in millions of U.S. dollars) | | | | |
| Total Market Value | $ 6,622 | $ 6,454 | $ 6,291 | $ 6,134 | $ 5,985 |
| Market Value Change from Base | 5.3% | 2.6% | — | (2.5)% | (4.9)% |
| Change in Unrealized Value | $ 331 | $ 163 | $ — | $ (157) | $ (306) |
| **As at December 31, 2016** | **-100** | **-50** | **—** | **+50** | **+100** |
| Total Market Value | $ 5,040 | $ 4,969 | $ 4,879 | $ 4,830 | $ 4,762 |
| Market Value Change from Base | 3.3% | 1.8% | — | (1.0)% | (2.4)% |
| Change in Unrealized Value | $ 161 | $ 90 | $ — | $ (49) | $ (117) |

The following table summarizes the aggregate hypothetical change in fair value from an immediate parallel shift in the treasury yield curve, assuming credit spreads remain constant, in our funds held - directly managed portfolio as at September 30, 2017 and December 31, 2016:

| | Interest Rate Shift in Basis Points | | | | |
|---|---|---|---|---|---|
| **As at September 30, 2017** | **-100** | **-50** | **—** | **+50** | **+100** |
| | (in millions of U.S. dollars) | | | | |
| Total Market Value | $ 1,260 | $ 1,217 | $ 1,177 | $ 1,139 | $ 1,103 |
| Market Value Change from Base | 7.1% | 3.4% | — | (3.2)% | (6.3)% |
| Change in Unrealized Value | $ 83 | $ 40 | $ — | $ (38) | $ (74) |
| **As at December 31, 2016** | **-100** | **-50** | **—** | **+50** | **+100** |
| Total Market Value | $ 1,057 | $ 1,022 | $ 988 | $ 958 | $ 928 |
| Market Value Change from Base | 7.0% | 3.4% | — | (3.0)% | (6.1)% |
| Change in Unrealized Value | $ 69 | $ 34 | $ — | $ (30) | $ (60) |

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

### Credit Risk

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

***Fixed Maturity and Short-Term Investments***

As a holder of fixed maturity and short-term investments, we also have exposure to credit risk as a result of investment ratings downgrades or issuer defaults. In an effort to mitigate this risk, our investment portfolio consists primarily of investment grade-rated, liquid, fixed maturity investments of short-to-medium duration and mutual funds. A table of credit ratings for our fixed maturity and short-term investments is in "Note 4 - Investments" in the notes to our unaudited condensed consolidated financial statements included within Part I, Item 1 of this Quarterly Report on Form 10-Q. As at September 30, 2017, approximately 47.8% of our fixed maturity and short-term investment portfolio was rated AA or higher by a major rating agency (December 31, 2016: 52.2%), with 5.8% rated lower than BBB- (December 31, 2016: 4.6%). The portfolio as a whole had an average credit quality rating of A+ as at September 30, 2017 (December 31, 2016: 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.

***Reinsurance***

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

As at September 30, 2017 and December 31, 2016, our reinsurance balances recoverable included $288.2 million and $242.1 million, respectively, from a related party and equity method investee, KaylaRe Ltd., amongst other balances, as discussed in "Note 19 - Related Party Transactions" in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report.

***Funds Held***

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

### Equity Price Risk

Our portfolio of equity investments, including the equity funds and call options on equities included in other investments (collectively, "equities at risk"), has exposure to equity price risk, which is the risk of potential loss in fair value resulting from adverse changes in stock prices. Our global equity portfolio is correlated with a blend of the S&P 500 and MSCI World indices, and changes in this blend of indices would approximate the impact on our portfolio. The fair value of our equities at risk at September 30, 2017 was approximately $351.3 million (December 31, 2016: $318.6 million). At September 30, 2017, the impact of a 10% decline in the overall market prices of our equities at risk would be approximately $35.1 million (December 31, 2016: $31.9 million), on a pre-tax basis.

### Foreign Currency Risk

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

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

We have exposure to foreign currency risk through our ownership of European, British, Canadian, and Australian subsidiaries whose functional currencies are the Euro, British pound, Canadian dollar, and Australian dollar, respectively. The foreign exchange gain or loss resulting from the translation of their financial statements from functional currency into U.S. dollars is recorded in the currency translation adjustment account, which is a component of accumulated other comprehensive income (loss) in shareholders' equity. During the nine months ended September 30, 2017, we reduced our borrowing of Euros under the EGL Revolving Credit Facility from €75 million to €50 million, to hedge the foreign currency exposure on our net investment in certain of our subsidiaries whose functional currency is denominated in Euros. This reduction was in relation to the sale of Laguna. During the nine months ended September 30, 2017, we entered into forward exchange contracts to hedge the foreign currency exposure on our net investment in certain of our subsidiaries whose functional currencies are denominated in Canadian and Australian dollars. The loan and the forward contracts are discussed in "Note 13 - Debt Obligations" and "Note 7 - Derivative Instruments", respectively, in the notes to our unaudited condensed consolidated financial statements included within Item 1 of this Quarterly Report. We utilized hedge accounting to record the foreign exchange gain or loss on these instruments in the currency translation account. We also utilized foreign currency forward contracts to hedge certain foreign currency exposures in British pounds and Euros which were not designated for hedge accounting.

The table below summarizes our net exposures to foreign currencies as at September 30, 2017 and December 31, 2016:

| **As at September 30, 2017** | **GBP** | **Euro** | **AUD** | **CDN** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| | | | **(in millions of U.S. dollars)** | | | |
| Total net foreign currency exposure | $ 5.5 | $ 29.8 | $ 13.3 | $ 42.4 | $ 5.4 | $ 96.4 |
| Pre-tax impact of a 10% movement of the U.S. dollar(1) | $ 0.6 | $ 3.0 | $ 1.3 | $ 4.2 | $ 0.5 | $ 9.6 |
| **As at December 31, 2016** | **GBP** | **Euro** | **AUD** | **CDN** | **Other** | **Total** |
| | | | **(in millions of U.S. dollars)** | | | |
| Total net foreign currency exposure | $ 20.6 | $ 17.9 | $ 12.2 | $ 26.6 | $ 5.2 | $ 82.5 |
| Pre-tax impact of a 10% movement of the U.S. dollar(1) | $ 2.1 | $ 1.8 | $ 1.2 | $ 2.7 | $ 0.5 | $ 8.3 |

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

### Effects of Inflation

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

## ITEM 4. *CONTROLS AND PROCEDURES*

### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as at September 30, 2017. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that we maintained effective disclosure controls and procedures to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and timely reported as specified in the rules and forms of the U.S. Securities and Exchange Commission and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. *LEGAL PROCEEDINGS*

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

### ITEM 1A. *RISK FACTORS*

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

***Changes in U.S. federal tax law and other tax laws could materially affect us or our shareholders.***

Comprehensive U.S. tax reform legislation has been proposed in the United States House of Representatives (H.R. 1) that, if enacted, would, among other things, reduce the corporate income tax rate and impose a tax on affiliate transactions. While not specific to the insurance industry, the affiliated transactions provision as proposed would impact insurance and reinsurance transactions between affiliated companies. H.R. 1 is still in the form of proposed legislation and amendments are possible, but as currently proposed could have an adverse impact on our business operations. Similar legislation has been proposed on various occasions to eliminate perceived tax advantages of insurance companies that have legal domiciles outside the United States but have certain U.S. connections. It is possible that such legislation could be enacted or similar legislation could be introduced in and enacted by the current Congress or future Congresses and enactment of some version of such legislation, or other changes in U.S. tax laws, regulations or interpretations thereof, could have an adverse impact on us or our shareholders.

The Organization for Economic Co-operation and Development (the "OECD") is a global governing organization, which analyzes and compares multi-national entities’ tax status using various metrics and reporting facts and figures. Created by the OECD under the initiative known as the “Base Erosion and Profit Shifting Project (“BEPS”), “Country-by-Country Reporting” (Action 13) aims to ensure that multi-national businesses provide appropriate and accurate information to each respective member and non-member region based on various metrics. These metrics are directed at counteracting the effects of global preferential tax regimes and increasing tax transparency. As a result of this initiative, we expect that countries, including those in which we operate, may change their tax laws and enhance reporting requirements. Such changes could increase the burden and costs of compliance.

### ITEM 2. *UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*

**Issuer Purchases of Equity Securities**

The following table provides information about ordinary shares acquired by the Company during the three months ended September 30, 2017, which were shares withheld from employees in order to facilitate the payment of withholding taxes on restricted shares. The Company does not have a share repurchase program.

| Period | Total Number of Shares Purchased[(1)] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Program |
|---|---|---|---|---|
| July 1, 2017 - July 31, 2017 | — | — | — | — |
| August 1, 2017 - August 31, 2017 | 2,617 | $ 198.00 | — | — |
| September 1, 2017 - September 30, 2017 | — | — | — | — |
| Total | 2,617 | | $ — | $ — |

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

### ITEM 6. *EXHIBITS*

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

## Exhibit Index

| Exhibit No. | Description |
|---|---|
| 2.1* | Amendment No. 1 to Stock Purchase Agreement, dated June 1, 2017, by and between Southland National Holdings, Inc. and Laguna Life Holdings SARL. |
| 2.2* | Amendment No. 2 to Stock Purchase Agreement, dated July 31, 2017, by and between Southland National Holdings, Inc. and Laguna Life Holdings SARL. |
| 3.1 | Memorandum of Association of Enstar Group Limited (incorporated by reference to Exhibit 3.1 of the Company's Form 10-K/A filed on May 2, 2011). |
| 3.2 | Fourth Amended and Restated Bye-Laws of Enstar Group Limited (incorporated by reference to Exhibit 3.2(b) of the Company's Form 10-Q filed on August 11, 2014). |
| 3.3 | Certificate of Designations of Series C Participating Non-Voting Perpetual Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on June 17, 2016). |
| 4.1 | Form of Waiver Agreement (incorporated by reference to Exhibit 4.7 of the Company's Form S-3 (No. 333-220889) filed on October 10, 2017). |
| 10.1*+ | Form of Performance Stock Unit Award Agreement (2018) under the Enstar Group Limited 2016 Equity Incentive Plan. |
| 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

## SIGNATURES

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

ENSTAR GROUP LIMITED

By: /S/ MARK SMITH
Mark Smith
Chief Financial Officer, Authorized Signatory and Principal Financial Officer

By: /S/ GUY BOWKER
Guy Bowker
Chief Accounting Officer and Principal Accounting Officer

**Exhibit 2.1**

AMENDMENT NO. 1 TO
STOCK PURCHASE AGREEMENT

This Amendment No. 1 to Stock Purchase Agreement (this "Amendment") is entered into as of June 1, 2017 by and between Southland National Holdings, Inc., a Delaware corporation ("Buyer"), and Laguna Life Holdings SARL, a Luxembourg société à responabilité limitée ("Seller"). Capitalized terms used but not defined herein have the meanings given to such terms in the Original Agreement (as defined below).

W I T N E S S E T H:

WHEREAS, Buyer and Seller are parties to a Stock Purchase Agreement, dated as of February 17, 2017 (the "Original Agreement");

WHEREAS, pursuant to Section 11(q) of the Original Agreement, Buyer and Seller agreed to discuss in good faith transferring 10,000 shares of capital stock (the "PLIC NY Shares") of Pavonia Life Insurance Company of New York, a New York insurance company ("PLIC NY"), to Seller prior to Closing;

WHEREAS, on the date hereof, Seller and Pavonia Life Insurance Company of Michigan, a Michigan insurance company and indirect wholly-owned subsidiary of Seller ("PLIC MI"), entered into a Stock Purchase Agreement (the "PLIC NY SPA") pursuant to which PLIC MI agreed to sell the PLIC NY Shares to Seller on the terms and subject to the conditions contained therein (the "PLIC NY Transaction");

WHEREAS, the PLIC NY Transaction will be consummated upon the receipt of the necessary regulatory approvals or waivers from the applicable Insurance Departments; and

WHEREAS, Buyer and Seller now desire to amend the Original Agreement in order to (a) provide for (i) the closing of the sale of the Holdings Shares (the "First Closing") and (ii) the subsequent closing of the sale of the PLIC NY Shares (the "Second Closing"), in each case to Buyer, and (b) preserve the original business intention and understanding of Buyer and Seller when entering into the Original Agreement and for consummating the Transaction, all in the manner set forth herein.

NOW THEREFORE, for good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. Amendments to Original Agreement.

(a) Section 2(a) of the Original Agreement is hereby amended and restated in its entirety as follows:

"(a) Basic Transaction. On and subject to the terms and conditions of this Agreement, (i) at the First Closing, Buyer shall purchase, acquire and accept from Seller, and Seller shall convey, assign, transfer and deliver to Buyer, all of the Holdings Shares, free and clear of all Liens (the "Holdings Transaction"), and (ii) at the Second Closing, Buyer shall acquire and accept from Seller, and Seller shall convey, assign, transfer and deliver to Buyer, all of the PLIC NY Shares, free and clear of all Liens (the "Second Transaction" and, together with the Holdings Transaction, the "Transaction"), all for the consideration specified below in Section 2(b)."

(b) Section 2(b) of the Original Agreement is hereby amended to replace "Closing" with "First Closing".

(c) Section 2(c) of the Original Agreement is hereby amended and restated in its entirety as follows:

"(c) Closing. The closing of the Holdings Transaction (the "First Closing") and the closing of the Second Transaction (the "Second Closing" and/or the First Closing, as the case may be and the context requires, the "Closing") shall each take place at the offices of Drinker Biddle & Reath LLP, One Logan Square, Suite 2000, Philadelphia, Pennsylvania 19103 commencing at 10:00 a.m. Eastern Time on the last Business Day of the calendar month in which all conditions to the obligations of the Parties to consummate the Holdings Transaction and the Second Transaction, respectively (other than conditions with respect to actions the respective Parties will take at the First Closing and the Second Closing, respectively), are satisfied or waived by the appropriate Party, or such other appropriate date as the Parties may mutually determine in writing (with respect to the First Closing, the "First Closing Date," with respect to the Second Closing, the "Second Closing Date," and with respect to the First Closing Date and/or the Second Closing Date, as the case may be and the context requires, the "Closing Date"). Each Closing shall be deemed to be effective as of 11:59 p.m. Eastern Time on the respective Closing Date. Notwithstanding anything herein and for the purposes of clarity, (i) whenever a representation, warranty, covenant or other provision in this Agreement refers to an Acquired Company or the Acquired Companies as of the Closing, such references shall mean each Acquired Company or the Acquired Companies as of the First Closing and PLIC NY as of the Second Closing, (ii) all references to Closing Date or Closing in Section 4(k) shall be interpreted to mean "First Closing Date" or "First Closing" with respect to Holdings, PLIC MI and Enstar Life and "Second Closing Date" or "Second Closing" with respect to PLIC NY, and (iii) all references to Closing Date in Section 9 shall be interpreted to mean "First Closing Date" with respect to Holdings, PLIC MI and Enstar Life and "Second Closing Date" with respect to PLIC NY."

(d) Section 2(d) of the Original Agreement is hereby amended and restated as follows:

"(d) Deliveries at Closing. At the First Closing, (i) Seller will deliver to Buyer (A) the stock certificate(s) representing the Holdings Shares and all of Seller's right, title and interest thereto and therein, free and clear of all Liens, endorsed in blank or accompanied by a duly executed assignment document, (B) a duly executed certificate to the effect that Holdings is not a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code (the "FIRPTA Statement"), and (C) the Limited Guaranty, duly executed by Enstar, (ii) Buyer will deliver to Seller (A) the Purchase Price as specified in Section 2(b) and (B) the Limited Guaranty, duly executed by Buyer, and (iii) each Party will deliver to the other Party a counterpart of the Transition Services Agreement, the PLIC NY Transition Services Agreement, and the Assignment and Assumption of Lease (together with this Agreement, the Transition Services Agreement, the PLIC NY Transition Services Agreement, the Limited Guaranty, the FIRPTA Statement, the Note, and the PLIC NY SPA, the "Transaction Documents"), in each case duly executed by such Party. At the Second Closing, Seller will deliver to Buyer the stock certificate representing the PLIC NY Shares and all of Seller's right, title and interest thereto and therein, free and clear of all Liens, endorsed in blank or accompanied by a duly executed assignment document."

(e) Section 2(e) of the Original Agreement is hereby amended to replace "Closing" in the second sentence thereof with "First Closing".

(f) Section 5 of the Original Agreement is hereby amended to add the following as a new sentence at the end of Section 5(b)(i):

"Notwithstanding the foregoing, Buyer will file an Application for Approval of Acquisition of Control of PLIC NY with the New York State Department of Financial Services by the later of (i) June 30, 2017 or (ii) fifteen (15) days following the New York State Department of Financial Services' approval or non-disapproval of the acquisition of PLIC NY by Seller or determination that such acquisition is exempt from N.Y. Ins. Laws § 1506."

(g) Section 5 of the Original Agreement is hereby amended to add the following as new Section 5(j):

"(j) Split Closing Matters. (i) For purposes of determining the obligations of Seller under this Section 5 with respect to the Acquired Companies during the period after the First Closing and up to and including the Second Closing, references to the "Acquired Companies" or an "Acquired Company" shall be deemed to mean PLIC NY; (ii) the reference to "Closing" in Section 5(g) and Section 5(i) shall be deemed to refer to the First Closing; and (iii) the provisions of Section 5(h) shall operate, as applicable, at each Closing. Further, the Parties agree that the Promissory Note delivered by Seller to PLIC MI in connection with the closing of the PLIC NY Transaction will be assumed by Buyer or its designee as the payor thereunder at the Second Closing."

(h) Section 6(c), Section 6(d), Section 6(e) and Section 6(g) of the Original Agreement are hereby amended to replace (i) each reference to "Closing" with "First Closing" and (ii) each reference to the "Closing Date" with the "First Closing Date". Seller's ownership and operation of PLIC NY after the First Closing shall not constitute a breach or violation of Section 6(d) of the Original Agreement. All references in Section 6(h) of the Original Agreement to "Acquired Company" or the "Acquired Companies" as of the Closing shall mean each Acquired Company (other than PLIC NY) or the Acquired Companies (other than PLIC NY) as of the First Closing and PLIC NY as of the Second Closing.

(i) Section 6(f)(i) of the Original Agreement is hereby amended and restated in its entirety as follows:

"(i) Seller shall deliver to Buyer (1) the resignations of all members of the board of directors of each Acquired Company (other than PLIC NY) from their positions as directors of such Acquired Company immediately prior to the First Closing, such resignations to become effective upon the First Closing, and (2) the resignations of the directors of PLIC NY from their positions as directors of PLIC NY immediately prior to the Second Closing, such resignations to become effective upon the Second Closing."

(j) Section 6(g) of the Original Agreement is hereby amended and restated in its entirety as follows:

"(g) Transition Services. Seller shall, or shall cause one of its Affiliates to, provide transition services to the Acquired Companies (other than PLIC NY) following the First Closing in accordance with the terms and conditions of a Transition Services Agreement, in the form attached hereto as Exhibit B (the "Transition Services Agreement"). Buyer shall cause PLIC MI to provide transition services to PLIC NY following the First Closing in accordance with a transition services agreement containing terms and conditions mutually satisfactory to the parties thereto (the "PLIC NY Transition Services Agreement)."

(k) The Parties intend for the conditions precedent in Sections 7(a), 7(b)(i), 7(b)(ii), 7(b)(vi), 7(c)(i) and 7(c)(ii) to apply both to the First Closing (as each condition relates to the Acquired Companies) and to the Second Closing (as each condition relates to PLIC NY only). The Parties further intend for the conditions precedent in Sections 7(b)(iii), 7(b)(iv), 7(b)(v) and 7(c)(iii) to apply to the First Closing only. As a result, Sections 7(a), 7(b)(i), 7(b)(ii), 7(b)(vi), 7(c)(i) and 7(c)(ii) of the Original Agreement are hereby amended to replace (i) each reference to "Closing" (A) with "First Closing" in so far as it relates to the Acquired Companies and (B) with "Second Closing" in so far as it relates to PLIC NY and (ii) each reference to the "Closing Date" (A) with the "First Closing Date" in so far as it relates to the Acquired Companies and (B) with the "Second Closing Date" in so far as it relates to PLIC NY. The Parties hereby acknowledge that all of Seller's representations and warranties in Section 3(a) and Section 4 of the Original Agreement (and the applicable sections of the Seller Disclosure Letter) shall be deemed modified to the extent necessary to account for the transactions contemplated by the PLIC NY SPA, the Note and the First Closing under the Original Agreement. In particular, to the extent the accuracy of such representations and warranties is a condition to the Second Closing, the completion of the transactions contemplated by the PLIC NY SPA, the Note and the First Closing under the Original Agreement will not cause a failure of such condition to be satisfied.

(l) The Original Agreement shall be amended to add a new Section 7(d) and to move the current Section 7(d) to Section 7(e):

"(d) Additional Conditions to Buyer's and Seller's Obligation to Close Second Transaction.

(i) The obligation of Buyer to effect the Second Closing is subject to the satisfaction (or waiver by Buyer) at or prior to the Second Closing of the following condition (in addition to the satisfaction or waiver of the conditions set forth in Section 7(a)): Seller shall have delivered (or caused to be delivered) to Buyer a certificate, dated as of the Second Closing Date and signed on behalf of Seller by an executive officer of Seller, stating that (1) the conditions specified in Section 7(b)(i) are satisfied as of the Second Closing Date and (2) the covenants and agreements of Seller to be performed after the First Closing Date and on or before the Second Closing Date in accordance with this Agreement shall have been performed in all material respects.

(ii) The obligation of Seller to effect the Second Closing is subject to the satisfaction (or waiver by Seller) at or prior to the Second Closing of the following condition (in addition to the satisfaction or waiver of the conditions set forth in Section 7(a)): Buyer shall have delivered (or caused to be delivered) to Seller a certificate, dated as of the Second Closing Date and signed on behalf of Buyer by an executive officer of Buyer, stating that (1) the conditions specified in Section 7(c)(i) are satisfied as of the Second Closing Date and (2) the covenants and agreements of Buyer to be performed after the First Closing Date and on or before the Second Closing Date in accordance with this Agreement shall have been performed in all material respects."

(m) Sections 8(a), 8(b) and 8(c) of the Original Agreement are hereby amended to replace (i) each reference to "Closing" with "First Closing" and (ii) each reference to "Closing Date" with "First Closing Date." The following paragraphs shall be added as new Sections 8(d), 8(e) and 8(f):

"(d) Termination of the Second Closing. Notwithstanding anything to the contrary in this Agreement, the Second Transaction and the Second Closing (together with the obligations of the Parties with respect thereto, subject to Section 8(e)) may be terminated at any time prior to the Second Closing:

(i) by mutual written consent of Seller and Buyer;

(ii) by Seller or by Buyer, if the Second Closing shall not have occurred on or prior to the date that is twelve (12) months after the date of the First Closing; provided, that if the conditions set forth in Section 7(a)(i) or Section 7(a)(ii) have not been satisfied by such date, either Seller or Buyer may extend such date for two additional successive three (3) month periods (such date, as may be so extended, the "Second Closing Outside Date"); provided, further, that the right to terminate the Second Transaction and the Second Closing under this Section 8(d)(ii) shall not be available to either Party whose failure to perform any material covenant or obligation under this Agreement has been the cause of, or resulted in, the failure of the Second Closing to occur on or before such date;

(iii) by Seller or by Buyer, if a Governmental Approval required under the Hart-Scott-Rodino Act to have been obtained in connection with the Second Transaction or a Governmental Approval required by any Insurance Department to consummate the Second Transaction shall have been denied and such denial shall have become final and nonappealable or a permanent injunction or other permanent Judgment issued by a court of competent jurisdiction shall have become final and nonappealable, preventing the consummation of the Second Transaction; provided that the Party seeking to terminate the Second Transaction and the Second Closing pursuant to this Section 8(d)(iii) shall have used its reasonable best efforts to obtain such Governmental Approval, or to prevent the entry of such permanent injunction or other permanent Judgment, as applicable, in each case, to the extent required by Section 5(a) and (b);

(iv) by Buyer, if any of Seller's representations and warranties contained in Section 3(a) or Section 4 of this Agreement shall fail to be true and correct (as such representations and warranties relate to PLIC NY only), or Seller shall have breached or failed to perform in any material respect any of its covenants or other agreements contained in this Agreement (as such covenants or other agreements relate to Seller's obligations with respect to PLIC NY only), and such failure or breach would give rise to the failure of a condition set forth in Section 7(b)(i) or Section 7(b)(ii) and has not been cured by the earlier of (A) the date that is sixty (60) Business Days after the date that Seller has notified Buyer of such failure or breach and (B) the Second Closing Outside Date; provided that Buyer is not then in breach of any of its representations, warranties, covenants or agreements contained in this Agreement such that such failure or breach would give rise to the failure of a condition set forth in Section 7(c)(i) or Section 7(c)(ii);

(v) by Seller, if any of Buyer's representations and warranties contained in Section 3(b) of this Agreement shall fail to be true and correct or Buyer shall have breached or failed to perform in any material respect any of its covenants or other agreements contained in this Agreement, and such failure or breach would give rise to the failure of a condition set forth in Section 7(c)(i) or Section 7(c)(ii) and has not been cured by the earlier of (A) the date that is sixty (60) Business Days after the date that Seller has notified Buyer of such failure or breach and (B) the Second Closing Outside Date; provided, that Seller is not then in breach of any of its representations, warranties, covenants or agreements contained in this Agreement (as such representations and warranties relate to PLIC NY only and such covenants or agreements relate to Seller's obligations with respect to PLIC NY only) such that such failure or breach would give rise to the failure of a condition set forth in Section 7(b)(i) or Section 7(b)(ii); or

(vi) by Buyer, upon written notice to Seller, within five (5) days following the date (if any) on which Buyer acquires the right to terminate this Agreement pursuant to Section 5(e); provided, that, for purposes of this Section 8(d)(vi), any development, event, occurrence or circumstance contemplated by Section 5(e) shall relate to PLIC NY only.

(e) Effect of Termination of Second Closing. If either Party terminates the Second Transaction and the Second Closing pursuant to Section 8(d), all rights and obligations of the Parties hereunder to consummate the Second Transaction and the Second Closing shall terminate without any liability of either Party to the other Party with respect to the Second Transaction and the Second Closing; provided, however, that (i) the confidentiality provisions contained in Section 5(g) shall survive termination in accordance with their terms as to PLIC NY only and not as to any other Acquired Company; (ii) neither Party shall be relieved of any obligation or liability arising from any willful and deliberate breach by such Party of any representation, warranty, covenant or other provision of this Agreement; (iii) the Parties shall, in all events, remain bound by and continue to be subject to the provisions set forth in Section 11; (iv) neither Party shall be liable for any consequential or punitive damages with respect to the termination of the Second Transaction and Second Closing; (v) all unpaid amounts due and payable by Seller to PLIC MI under the Note shall be accelerated and become immediately due and payable to Buyer; and (vi) all provisions of this Agreement relating to the First Closing shall remain in full force and effect, including without limitation the Parties' rights and obligations under Section 6 (Post-Closing Covenants) and Section 10 (Indemnification) with respect to the First Closing.

(f) Notice of Termination of Second Closing. In the event of termination by Seller or Buyer pursuant to Section 8(d), written notice of such termination shall be given by the terminating Party to the other Party."

(n) Section 10(a)(i)(D) of the Original Amendment is hereby amended and restated as follows:

"(D) any penalties or interest owed on or with respect to any unpaid Taxes of any Acquired Company (other than PLIC NY) for any period ending prior to the First Closing Date and of PLIC NY for any period ending prior to the Second Closing Date (in each case, other than penalties or interest resulting from a Buyer objection to a Tax Return prepared by Seller pursuant to Section 9(a) or 9(b));"

(o) Section 10(e) of the Original Agreement is hereby amended to replace (i) each reference to "Closing" with "First Closing" and (ii) each reference to "Closing Date" with "First Closing Date".

(p) Section 10(g) of the Original Agreement is hereby amended to replace the last sentence thereof with the following:

"Notwithstanding anything to the contrary in this Agreement, except as expressly contemplated by Section 10(a)(i)(D) with respect to penalties and interest on or with respect to any unpaid Taxes of any Acquired Company (other than PLIC NY) for any period ending prior to the First Closing Date and of PLIC NY for any period ending prior to the Second Closing Date, Buyer shall not have any right to indemnification under this Agreement with respect to, or based on, Taxes to the extent such Taxes (i) are attributable to a Tax period (or portion thereof) beginning on or after September 30, 2016, (ii) are due to the unavailability in any Tax period (or portion thereof) beginning on or after September 30, 2016 of any net operating losses, credit or other Tax attributes from a Tax period (or portion thereof) ending on or prior to September 30, 2016, or (iii) result from transactions or actions taken by Buyer or any of its Affiliates (including, for the avoidance of doubt, the Acquired Companies) after the First Closing with respect to the Acquired Companies (other than PLIC NY) and after the Second Closing with respect to PLIC NY, in each case that are not contemplated by this Agreement."

(q) The following defined terms shall be added to Section 1 of the Original Agreement in the correct alphabetical location:

““First Closing” has meaning set forth in Section 2(c).”

““First Closing Date” has meaning set forth in Section 2(c).”

““Holdings Transaction” has meaning set forth in Section 2(a).”

““Note” means that certain Intercompany Promissory Note by Seller, as payor, and PLIC MI, as payee, to be issued under the PLIC NY SPA.”

““PLIC NY Share” means any share of common stock, par value $100.00 per share, of PLIC NY.”

““PLIC NY SPA” means that certain Stock Purchase Agreement dated as of June 1, 2017 by and between Seller and PLIC MI.”

““PLIC NY Transaction” means the sale of the PLIC NY Shares by PLIC MI to Seller pursuant to a Stock Purchase Agreement entered into on or prior to the First Closing.”

““PLIC NY Transition Services Agreement” has the meaning in Section 6(g).”

““Second Closing” has meaning set forth in Section 2(c).”

““Second Closing Date” has meaning set forth in Section 2(c).”

““Second Closing Outside Date” has meaning set forth in Section 8(d)(ii).”

““Second Transaction” has meaning set forth in Section 2(a).”

2. No Other Amendments. Except as amended hereby, the Original Agreement remains unmodified and in full force and effect.

3. Further Assurances. The Parties acknowledge that their intention is to facilitate the prompt completion of the First Closing through the changes reflected in this Amendment. In addition, in case at any time after the date hereof any further action is necessary to carry out the purposes of this Amendment and the intentions of the Parties, each Party will take such further action (including the execution and delivery of such further instruments and documents) as the other Party reasonably may request, all at the sole cost and expense of the requesting Party.

4. Miscellaneous.

(a) Succession and Assignment. This Amendment shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. Neither Party may assign either this Amendment or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party; provided, however, that Buyer may (i) assign any or all of its rights and interests hereunder to one or more of its Affiliates and (ii) designate one or more of its Affiliates to perform its obligations hereunder (in any or all of which cases Buyer nonetheless shall remain responsible for the performance of all of its obligations hereunder).

(b) Counterparts. This Amendment may be executed in one or more counterparts (including by means of facsimile), each of which shall be deemed an original but all of which together will constitute one and the same instrument.

(c) Governing Law; Venue; Service of Process.

(i) This Amendment shall be governed by and construed in accordance with the domestic Laws of the State of Delaware (and, to the extent applicable, U.S. federal Law) without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AMENDMENT SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE STATE OF DELAWARE. EACH PARTY HEREBY SUBMITS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, TO THE EXCLUSIVE JURISDICTION AND EXCLUSIVE VENUE OF THE AFORESAID COURTS IN DELAWARE AND

KNOWINGLY WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 4(c)(i).

(ii) Each Party hereby (A) consents to service of process in any action between the Parties arising in whole or in part under or in connection with this Amendment or the transactions contemplated hereby in any manner permitted under the laws of the State of Delaware, (B) agrees that service of process made in accordance with clause (A) or by registered, certified mail, overnight carrier or courier, return receipt requested, at its address specified in Section 11(g) of the Original Agreement will constitute good and valid service of process in any such action and (C) waives and agrees not to assert (by way of motion, as a defense or otherwise) in any such action any claim that service of process made in accordance with clause (A) or (B) does not constitute good and valid service of process.

(d) Waiver of Jury Trial. THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AMENDMENT, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. THE PARTIES REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AMENDMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

(e) Entire Agreement. This Amendment, together with the Original Agreement, constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, to the extent they relate in any way to the subject matter hereof.

(*Signature page to follow*.)

IN WITNESS WHEREOF, the Parties have executed this Amendment as of the date first above written.

BUYER:

Southland National Holdings, Inc.

By: /s/ Lou E. Hensley
Name: Lou E. Hensley
Title: CEO

SELLER:

Laguna Life Holdings SARL

By: /s/ David Rocke
Name: David Rocke
Title: Director

**Exhibit 2.2**

AMENDMENT NO. 2 TO
STOCK PURCHASE AGREEMENT

This Amendment No. 2 to Stock Purchase Agreement (this "Amendment") is entered into as of July 31, 2017 by and between Southland National Holdings, Inc., a Delaware corporation ("Buyer"), and Laguna Life Holdings SARL, a Luxembourg société à responabilité limitée ("Seller"). Capitalized terms used but not defined herein have the meanings given to such terms in the Amended Agreement (as defined below).

W I T N E S S E T H:

WHEREAS, Buyer and Seller are parties to a Stock Purchase Agreement, dated as of February 17, 2017 (the "Original Agreement");

WHEREAS, the Original Agreement was amended pursuant to Amendment No. 1 to Stock Purchase Agreement, dated as of June 1, 2017 ("Amendment No. 1"), in order to (a) provide for (i) the closing of the sale of the Holdings Shares and (ii) the subsequent closing of the sale of the PLIC NY Shares, in each case to Buyer, and (b) preserve the original business intention and understanding of Buyer and Seller when entering into the Original Agreement and for consummating the Transaction, all in the manner set forth therein;

WHEREAS, on June 1, 2017, Seller and Pavonia Life Insurance Company of Michigan, a Michigan insurance company and indirect wholly-owned subsidiary of Seller ("PLIC MI"), entered into a Stock Purchase Agreement (the "PLIC NY SPA") pursuant to which PLIC MI agreed to sell the PLIC NY Shares to Seller on the terms and subject to the conditions contained therein;

WHEREAS, on the date hereof, Seller and PLIC MI desire to enter into Amendment No. 1 to the PLIC NY SPA (the "PLIC NY SPA Amendment") pursuant to which the PLIC NY SPA would be amended to provide that the aggregate purchase price for the PLIC NY Shares would be in the form of cash rather than the Note; and

WHEREAS, in connection with the PLIC NY SPA Amendment, Buyer and Seller now desire to amend the Original Agreement (as amended by Amendment No. 1, the "Amended Agreement") in order to (among other things) provide that Buyer will pay cash to Seller at the Second Closing for the PLIC NY Shares.

NOW THEREFORE, for good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, the Parties, intending to be legally bound, agree as follows:

1. Amendments to Amended Agreement.

(a) Section 2(b) of the Amended Agreement is hereby amended and restated in its entirety as follows:

"(b) Purchase Price. At the First Closing, Buyer shall pay to Seller an aggregate cash payment equal to One Hundred Twenty Million Dollars ($120,000,000) (the "Holdings Purchase Price") minus the amount of any Transaction Expenses (net of the income tax benefits from such Transaction Expenses, based upon an assumed marginal income tax rate of 35%), by wire transfer or other delivery of immediately available funds. At the Second Closing, Buyer shall pay to Seller an aggregate cash payment equal to Thirteen Million Seventy-Nine Thousand Eight Hundred Ninety-Nine Dollars ($13,079,899) (the "PLIC NY Purchase Price" and, together with the Holdings Purchase Price, the "Purchase Price") minus the amount of any Transaction Expenses (net of the income tax benefits from such Transaction Expenses, based upon an assumed marginal income tax rate of 35%), by wire transfer or other delivery of immediately available funds."

(b) Section 2(d) of the Amended Agreement is hereby amended and restated as follows:

"(d) Deliveries at Closing. At the First Closing, (i) Seller will deliver to Buyer (A) the stock certificate(s) representing the Holdings Shares and all of Seller's right, title and interest thereto and therein, free and clear of all Liens, endorsed in blank or accompanied by a duly executed assignment document, (B) a duly executed certificate to the effect that Holdings is not a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code (the "FIRPTA Statement"), and (C) the Limited Guaranty, duly executed by Enstar, (ii) Buyer will deliver to Seller (A) the Holdings Purchase Price as specified in Section 2(b) and (B) the Limited Guaranty, duly executed by Buyer, and (iii) each Party will deliver to the other Party a counterpart of the Transition Services Agreement, the PLIC NY Transition Services Agreement, the Facility Sharing Agreement and the Assignment and Assumption of Lease (together with this Agreement, the Transition Services Agreement, the PLIC NY Transition Services Agreement, the Facility Sharing Agreement, the Limited Guaranty, the FIRPTA Statement, and the PLIC NY SPA, the "Transaction Documents"), in each case duly executed by such Party or its Affiliate, as applicable. At the Second Closing, (1) Seller will deliver to Buyer the stock certificate representing the PLIC NY Shares and all of Seller's right, title and interest thereto and therein, free and clear of all Liens, endorsed in blank or accompanied by a duly executed assignment document, and (2) Buyer will deliver to Seller the PLIC NY Purchase Price as specified in Section 2(b)."

(c) Section 5(b)(i) of the Amended Agreement is hereby amended to delete the last sentence added in Section 1(f) of Amendment No. 1 and replace it with the following:

"Notwithstanding the foregoing, Buyer will file an Application for Approval of Acquisition of Control of PLIC NY with the New York State Department of Financial Services by the later of (i) August 31, 2017 or (ii) fifteen (15) days following the New York State Department of Financial Services' approval or disapproval of the acquisition of PLIC NY by Seller or determination that such acquisition is exempt from N.Y. Ins. Laws § 1506."

(d) Section 5(j) of the Amended Agreement is hereby amended and restated as follows:

"(j) Split Closing Matters. (i) For purposes of determining the obligations of Seller under this Section 5 with respect to the Acquired Companies during the period after the First Closing and up to and including the Second Closing, references to the "Acquired Companies" or an "Acquired Company" shall be deemed to mean PLIC NY; (ii) the reference to "Closing" in Section 5(g) and Section 5(i) shall be deemed to refer to the First Closing; and (iii) the provisions of Section 5(h) shall operate, as applicable, at each Closing."

(e) Section 6(g) of the Amended Agreement is hereby amended and restated in its entirety as follows:

"(g) Transition Services Agreements; Facility Sharing Agreement. Seller shall, or shall cause one of its Affiliates to, provide transition services to the Acquired Companies (other than PLIC NY) following the First Closing in accordance with the terms and conditions of a Transition Services Agreement, in substantially the form attached hereto as Exhibit B (the "Transition Services Agreement"). Buyer shall cause PLIC MI to (i) provide transition services to PLIC NY following the First Closing in accordance with a transition services agreement containing terms and conditions mutually satisfactory to the parties thereto (the "PLIC NY Transition Services Agreement) and (ii) allow Tenant to use a portion of the office space subject to the Basking Ridge Lease following the First Closing in accordance with a Facility Sharing Agreement containing terms and conditions mutually satisfactory to the parties thereto (the "Facility Sharing Agreement)."

(f) The Parties hereby acknowledge that all of Seller's representations and warranties in Section 3(a) and Section 4 of the Amended Agreement (and the applicable sections of the Seller Disclosure Letter) shall be deemed modified to the extent necessary to account for the transactions contemplated by the PLIC NY SPA (as amended by the PLIC NY SPA Amendment) and the First Closing under the Amended Agreement. In particular, to the extent the accuracy of such representations and warranties is a condition to the Second Closing, the completion of the transactions contemplated by the PLIC NY SPA (as amended by the PLIC NY SPA Amendment) and the First Closing under the Amended Agreement will not cause a failure of such condition to be satisfied. The Parties hereby acknowledge and agree that the first two sentences of this Section 1(e) supersede the last two sentences of Section 1(k) of Amendment No. 1.

(g) Section 8(a)(ii) of the Amended Agreement is hereby amended and restated in its entirety as follows:

“by Seller or by Buyer, if the First Closing shall not have occurred on or prior to October 17, 2017; provided, that if the conditions set forth in Section 7(a)(i) or Section 7(a)(ii) have not been satisfied by such date, then such date shall automatically be extended until December 17, 2017 (such date, as may be so extended, the “Outside Date”); provided, further, that the right to terminate this Agreement under this Section 8(a)(ii) shall not be available to either Party whose failure to perform any material covenant or obligation under this Agreement has been the cause of, or resulted in, the failure of the First Closing to occur on or before such date;”

(h) Section 8(e) of the Amended Agreement is hereby amended to delete subpart (v) thereof and to replace “(vi)” with “(v)” therein.

(i) Sections 10(a)(i), 10(a)(ii), and 10(c) of the Amended Agreement are hereby amended to replace each reference to “Purchase Price” with “Holdings Purchase Price”.

(j) The Amended Agreement shall be amended to add a new Section 11(q):

“(q) Right of Offset. Buyer’s obligation to pay the PLIC NY Purchase Price will be subject to offset, deduction, and withholding for any amounts owed by Seller to any Buyer Indemnitee for any right to indemnification under Section 10(a) for Losses incurred by such Buyer Indemnitee after the First Closing and prior to the Second Closing as a result of, arising out of or based upon any breach by Seller of any representation, warranty or covenant relating to the purchase and sale of the PLIC NY Shares pursuant to the PLIC NY SPA.”

(k) Section 1 of the Amended Agreement shall be amended to (i) remove the definition of “Note” therein and (ii) add the following defined terms in the correct alphabetical location:

"“Facility Sharing Agreement” has meaning set forth in Section 6(g).”

"“Holdings Purchase Price” has meaning set forth in Section 2(b).”

"“PLIC NY Purchase Price” has meaning set forth in Section 2(b).”

2. No Other Amendments. Except as amended hereby, the Amended Agreement remains unmodified and in full force and effect.

3. Further Assurances. The Parties acknowledge that their intention is to facilitate the prompt completion of the First Closing through the changes reflected in this Amendment and Amendment No. 1. In addition, in case at any time after the date hereof any further action is necessary to carry out the purposes of this Amendment and the intentions of the Parties, each Party will take such further action (including the execution and delivery of such further instruments and documents) as the other Party reasonably may request, all at the sole cost and expense of the requesting Party.

4. Miscellaneous.

(a) Succession and Assignment. This Amendment shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. Neither Party may assign either this Amendment or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party; provided, however, that Buyer may (i) assign any or all of its rights and interests hereunder to one or more of its Affiliates and (ii) designate one or more of its Affiliates to perform its obligations hereunder (in any or all of which cases Buyer nonetheless shall remain responsible for the performance of all of its obligations hereunder).

(b) Counterparts. This Amendment may be executed in one or more counterparts (including by means of facsimile), each of which shall be deemed an original but all of which together will constitute one and the same instrument.

(c) Governing Law; Venue; Service of Process.

(i) This Amendment shall be governed by and construed in accordance with the domestic Laws of the State of Delaware (and, to the extent applicable, U.S. federal Law) without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the application of the Laws of any jurisdiction other than the State of Delaware. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AMENDMENT SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE STATE OF DELAWARE. EACH PARTY HEREBY SUBMITS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, TO THE EXCLUSIVE JURISDICTION AND EXCLUSIVE VENUE OF THE AFORESAID COURTS IN DELAWARE AND KNOWINGLY WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 4(c)(i).

(ii) Each Party hereby (A) consents to service of process in any action between the Parties arising in whole or in part under or in connection with this Amendment or the transactions contemplated hereby in any manner permitted under the laws of the State of Delaware, (B) agrees that service of process made in accordance with clause (A) or by registered, certified mail, overnight carrier or courier, return receipt requested, at its address specified in Section 11(g) of the Amended Agreement will constitute good and valid service of process in any such action and (C) waives and agrees not to assert (by way of motion, as a defense or otherwise) in any such action any claim that service of process made in accordance with clause (A) or (B) does not constitute good and valid service of process.

(d) Waiver of Jury Trial. THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AMENDMENT, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. THE PARTIES REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AMENDMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

(e) Entire Agreement. This Amendment, together with the Amended Agreement, constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, to the extent they relate in any way to the subject matter hereof.

(*Signature page to follow*.)

IN WITNESS WHEREOF, the Parties have executed this Amendment as of the date first above written.

BUYER:

Southland National Holdings, Inc.

By: /s/ Lou E. Hensley
Name: Lou E. Hensley
Title: CEO

SELLER:

Laguna Life Holdings SARL

By: /s/ Guy Bowker
Name: Guy Bowker
Title: Director

**Exhibit 10.1**

**PERFORMANCE STOCK UNIT AWARD AGREEMENT**
**UNDER THE ENSTAR GROUP LIMITED 2016 EQUITY INCENTIVE PLAN**

This Performance Stock Unit 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 the respective meanings set forth in the Plan (as defined below).

WITNESSETH THAT:

WHEREAS, the Company maintains the Enstar Group Limited 2016 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 Performance Stock Unit 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 _______________.

(b) The “Grant Date” is _______________.

(c) The target number of Performance Stock Units (“PSUs”) granted under this Agreement is _______.

(d) The “Performance Period” is the period commencing on __________ and ending on __________________.

2. Award. Subject to the terms of this Agreement and the Plan, the Grantee is hereby granted the PSUs as described in paragraph 1. The number of PSUs awarded in this paragraph 2 is referred to as the “Target Award.” Each PSU represents the right to receive one Common Share, subject to the terms and conditions set forth in this Agreement and the Plan. The number of PSUs that the Grantee actually earns for the Performance Period will be determined by the level of achievement of the Performance Goals in accordance with Exhibit A attached hereto and shall be rounded up to the nearest whole PSU. The Company shall establish a bookkeeping account in the Grantee’s name which reflects the number of PSUs standing to the credit of the Grantee.

3. Performance Goals.

(a) The number of PSUs earned by the Grantee for the Performance Period will be determined at the end of the Performance Period based on the level of achievement of the Performance Goals in accordance with Exhibit A. All determinations of whether Performance Goals have been achieved, the number of PSUs earned by the Grantee, and all other matters related to this paragraph 3 shall be made by the Committee in its sole discretion.

(b) Promptly following completion of the Performance Period, the Committee will review and certify in writing (a) whether, and to what extent, the Performance Goals for the Performance Period have been achieved, and (b) the number of PSUs that the Grantee shall earn, if any, subject to compliance with the requirements of paragraph 4. Such certification shall be final, conclusive and binding on the Grantee, and on all other persons, to the maximum extent permitted by law.

4. Vesting.

(a) The PSUs are subject to forfeiture until they vest. Except as otherwise provided herein, the PSUs will vest and become nonforfeitable on the date the Committee certifies the achievement of the Performance Goals in accordance with paragraph 3(b), subject to the achievement of the minimum threshold Performance Goals for payout set forth in Exhibit A attached hereto. The number of PSUs that vest and become payable under this

Agreement shall be determined by the Committee based on the level of achievement of the Performance Goals set forth in Exhibit A.

(b) Except as otherwise expressly provided in this Agreement, if the Grantee's Termination of Service occurs for any reason prior to the end of the Performance Period, the Grantee shall forfeit all PSUs granted with respect to the Performance Period and neither the Company nor any Related Corporation shall have any further obligations to the Grantee under this Agreement. Notwithstanding the foregoing, if the Grantee's Termination of Service occurs as a result of the Grantee's death, disability, or termination by the Company or a Related Corporation without Cause prior to the end of the Performance Period, the Grantee will vest on such date in a pro rata portion of the Target Award calculated by multiplying the Target Award by a fraction, the numerator of which equals the number of days that the Grantee was employed during the Performance Period and the denominator of which equals the total number of days in the Performance Period.

(c) Subject to Subsection 13(d) and Section 14 of the Plan, upon the occurrence of a Change in Control during the Performance Period, the Performance Period shall end and the Grantee shall be deemed to have earned an award equal to a pro-rata portion of the Grantee's target award opportunity for the Performance Period based on the portion of the Performance Period which has been completed as of the date of the Change in Control.

5. Shareholder Rights. The Grantee shall not have any right, in respect of PSUs awarded pursuant to the Plan, to receive dividends or vote on any matter submitted to the Company's stockholders until such time as Common Shares attributable to such PSUs have been issued to the Grantee.

6. Dividend Equivalents. PSUs awarded under this Agreement are eligible to receive Dividend Equivalents. On each date that a cash dividend is paid with respect to Common Shares, the Company shall credit the bookkeeping account (the "Account") established on behalf of the Grantee with the dollar amount of the dividends the Grantee would have received if the PSUs held by the Grantee on the record date for such dividend payment had been Common Shares. Interest may be credited on the Dividend Equivalents at a rate and subject to such terms as determined by the Committee. Dividend Equivalents shall be subject to the same vesting and forfeiture restrictions as the PSUs to which they are attributable and shall be paid in cash on the same date that the PSUs to which they are attributable are settled.

7. Settlement of PSUs. As soon as practicable after the vesting date and in any event no later than March 15 of the calendar year following the calendar year in which such vesting occurs, the Company shall transfer to the Grantee one Common Share for each PSU vesting on the vesting date (the date of any such transfer shall be the settlement date for purposes of this Agreement); however, the Company may withhold shares otherwise transferable to the Grantee to the extent necessary to satisfy withholding taxes due by reason of the vesting of the PSU. Notwithstanding the foregoing, upon a Change in Control, the Company may, in its sole discretion and on such terms and conditions as it deems appropriate, pay the Award either (i) in Common Shares, and/or (ii) as a Settlement Payment in cash or other property on the 30th day following such Change in Control, based on the Change in Control Price.

8. Deferral of PSUs.

(a) The Grantee may elect to defer the settlement of PSUs (and any related Dividend Equivalents) granted under this Agreement until the earliest of (i) a date (the "Specified Payment Date") selected by the Grantee that is not less than one (1) year and not more than ten (10) years from the vesting date, (ii) a Change in Control, provided that the event constitutes a change in control within the meaning of Treasury Regulation Section 1.409A-3(i)(5) or any successor provision, or (iii) the Grantee's Termination of Service for any reason, provided that the event constitutes a separation from service within the meaning of Treasury Regulation Section 1.409A-1(h) or any successor provision. In such case, settlement of PSUs (and any related Dividend Equivalents) will occur as soon as practicable after the Specified Payment Date, Change in Control, or Termination of Service, as applicable, but in any event no later than sixty (60) days thereafter. Notwithstanding the foregoing, if settlement is to be made as a result of the Grantee's Termination of Service other than due to death or disability and the Grantee is a "specified employee" within the meaning of Code Section 409A at the time of such Termination of Service, then settlement will not occur until the first business day of the seventh month following the month in which such Termination of Service occurs (or, if earlier, within 60 days of the Grantee's death if the Grantee dies following Termination of Service and before payment is made).

(b) To make an election to defer settlement of PSUs (and any related Dividend Equivalents), the Grantee must make a valid election in compliance with the provisions of Section 409A of the Code and in accordance with procedures established by the Committee. Such deferral election is irrevocable and may not be accelerated, revoked or modified except as otherwise permitted under Code Section 409A and the Plan. PSUs deferred under this election will be settled in Common Shares payable in a single lump sum. Dividend Equivalents deferred under this election will be settled in a single lump sum cash payment.

9. Transferability. The Grantee shall not transfer or assign, in whole or in part, PSUs 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 4 above.

10. 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 Common Shares hereunder prior to the full payment of the Grantee's tax liabilities relating to this Award. The Committee may, in its discretion, permit the Grantee 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.

11. Compliance with Applicable Law. Notwithstanding any other provision of this Agreement, the Company shall have no obligation to issue any Common Shares if such issuance would violate any applicable law or any applicable regulation or requirement of any securities exchange or similar entity.

12. Section 409A. Notwithstanding anything herein to the contrary, to the maximum extent permitted by applicable law, the settlement of the PSUs (including any Dividend Equivalents) to be made to the Grantee pursuant to this Agreement is intended to qualify as a "short-term deferral" pursuant to Section 1.409A-1(b)(4) of the Regulations and this Agreement shall be interpreted consistently therewith. However, under certain circumstances, including where Grantee has elected to defer settlement of this Award in accordance with paragraph 8, settlement of the PSUs or any Dividend Equivalents may not so qualify, and in that case, the Committee shall administer the grant and settlement of such PSUs and any Dividend Equivalents in compliance with Section 409A of the Code. Notwithstanding the foregoing, neither the Company nor the Committee shall have any obligation to take any action to prevent the assessment of any excise tax or penalty on the Grantee under Section 409A of the Code and neither the Company nor the Committee will have any liability to the Grantee for such tax or penalty.

13. Section 162(m). All payments under this Agreement are intended to constitute "qualified performance-based compensation" within the meaning of Section 162(m) of the Code. This Award shall be construed and administered in a manner consistent with such intent.

14. 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.

15. 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.

16. 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, at the Company's principal executive office.

17. 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.

18. 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.

19. 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.

20. Applicable Law. This Agreement shall be construed in accordance with the laws of Bermuda (without reference to principles of conflict of laws).

21. Clawback Policy. Notwithstanding any other provision of this Agreement, this Award will be subject to any compensation recovery or clawback policy the Company adopts, including any policy required to comply with applicable law or listing standards, as such policy may be amended from time to time in the Company's sole discretion.

22. Electronic Administration. Grantee hereby consents to any and all procedures that the Company has established or may establish for an electronic signature system for delivery and acceptance of this award agreement and any other documents that the Company may be required to deliver, and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature.

23. Special Provisions for European Grantees.

(a) In addition, the Grantee acknowledges: (i) that the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (ii) that the grant of the PSUs does not create any contractual or other right to receive future grants of PSUs, or benefits in lieu of PSUs; (iii) that all determinations with respect to any such future grants, including, but not limited to, the times when PSUs shall be granted and the number of shares subject to each PSU will be at the sole discretion of the Company without the need to supply reasons for the exercise or non-exercise of that discretion; and (v) that the PSU is not part of normal or expected compensation for purposes of calculating any severance or other payments paid for any reason whatsoever and whether such termination is subsequently held to be wrongful or unfair.

(b) The Grantee has been informed by the Company about the processing of relevant data under the Plan and the PSUs and in particular this paragraph. By entering into this Agreement, the Grantee: (i) authorizes the Company and each Affiliate, and any agent of the Company or any Affiliate or third party administering the Plan, to collect, use, process and disclose and transfer to and retention by the Company or any of its or their persons such information and data (including personal data) as the Company or any such person (including any situated outside the European Economic Area) shall request or need in order to facilitate the grant of PSUs and the administration of the Plan; (ii) waives any data privacy rights he or she may have with respect to such information; and (iii) authorizes the Company and each Affiliate to store and transmit such information in electronic form.

(c) The Grantee acknowledges that any income, other taxes or social security contributions (including to the extent provided herein any employers' social security contributions) due from him or her with respect to the grant, vesting, deferral or delivery of this Award and Common Shares transferable hereunder ("Tax Liability") shall be the Grantee's responsibility and the Grantee agrees to indemnify the Company and his employer or former employer in respect of all such Tax Liability provided that the Grantee understands and agrees that, unless (a) his employer or former employer is able to withhold the amount of the Tax Liability from payment of his remuneration within the period of 30 days from the date on which any Tax Liability arises; (b) the Grantee indicates in writing to his employer or former employer in a manner agreed with the Company that the Grantee will make a payment to the Company of an amount equal to the Tax Liability and does in fact make such a payment, within 14 days of being notified by the Company of the amount of the Tax Liability, the Company shall be entitled to sell sufficient of the Common Shares acquired or to be acquired by the Grantee necessary to satisfy the indemnity and to procure payment to the Grantee's employer of an amount sufficient to satisfy the indemnity out of the net proceeds of sale of the Shares.

(d) In accordance with the instructions included on the deferral election form attached hereto as Exhibit A, any deferral election made in a jurisdiction where such election would be ineffective for tax purposes according to the law of such jurisdiction shall be null and void and the PSUs will be settled as if no deferral election had been made.

**[Signature Page Follows]**

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Performance Stock Award Agreement on ____________________, ____.

ENSTAR GROUP LIMITED

By:________________________________
Name:
Title:

_____________________________________
Grantee

Address:

## EXHIBIT A

**Performance Measure**

The number of PSUs earned shall be determined by reference to the **[Insert Performance Goal(s)]** for the Performance Period.

**[Insert Definitions Applicable to Performance Goals and performance Period]**

**Determining PSUs Earned and Award Range**

Except as otherwise provided in the Plan or the Agreement, the number of PSUs earned with respect to the Performance Period shall be determined as follows: **[Insert Description]**

Exhibit 31.1

**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: November 8, 2017

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

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO**

**RULE 13a-14(a)/15d-14(a),**

**AS ADOPTED PURSUANT TO SECTION 302**

**OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Smith, certify that:

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

Dated: November 8, 2017

/S/ MARK SMITH
Mark Smith
Chief Financial Officer

**Exhibit 32.1**

**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 September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dominic F. Silvester, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2017

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

**Exhibit 32.2**

**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 September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark Smith, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2017

/S/ MARK SMITH
Mark Smith
Chief Financial Officer