Enstar Group LTD
Form 10-Q
November 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended September 30, 2014

OR

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

For the Transition Period From to

001-33289

Commission File Number

ENSTAR GROUP LIMITED

(Exact name of registrant as specified in its charter)

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

P.O. Box HM 2267

Windsor Place, 3rd Floor

22 Queen Street

Hamilton HM JX

Bermuda

(Address of principal executive office, including zip code)

(441) 292-3645

(Registrant s telephone number, including area code)

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

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

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

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

As of November 5, 2014, the registrant had outstanding 15,759,738 voting ordinary shares and 3,439,652 non-voting convertible ordinary shares, each par value $1.00 per share.

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PART I FINANCIAL INFORMATION

Item 1. *FINANCIAL STATEMENTS*

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

As of September 30, 2014 and December 31, 2013

	September 30, 2014	December 31, 2013
	(expressed in thousands of U.S. dollars, except share data)	
ASSETS		
Short-term investments, trading, at fair value	$ 161,807	$ 281,002
Short-term investments, available-for-sale, at fair value (amortized cost: 2014 $574; 2013 $32,477)	574	32,504
Fixed maturities, trading, at fair value	3,997,454	3,381,719
Fixed maturities, held-to-maturity, at amortized cost	845,610	859,387
Fixed maturities, available-for-sale, at fair value (amortized cost: 2014 $239,124; 2013 $210,825)	238,220	213,860
Equities, trading, at fair value	134,398	182,033
Other investments, at fair value	842,555	569,293
Total investments	6,220,618	5,519,798
Cash and cash equivalents	921,615	643,841
Restricted cash and cash equivalents	502,402	397,657
Accrued interest receivable	40,648	38,864
Accounts receivable	83,608	75,351
Premiums receivable	405,209	111,748
Income taxes recoverable	5,633	5,481
Deferred tax assets	34,278	34,295
Prepaid reinsurance premiums	140,453	
Reinsurance balances recoverable	1,479,267	1,363,819
Funds held by reinsured companies	150,300	237,789
Deferred acquisition costs	36,172	
Goodwill and intangible assets	202,986	150,071
Other assets	26,256	41,441
TOTAL ASSETS	$ 10,249,445	$ 8,620,155
LIABILITIES		
Losses and loss adjustment expenses	$ 4,851,911	$ 4,219,905
Policy benefits for life and annuity contracts	1,228,643	1,273,100

Unearned premiums	439,862	70,698
Insurance and reinsurance balances payable	373,291	281,028
Accounts payable and accrued liabilities	99,379	97,103
Income taxes payable	20,732	23,721
Deferred tax liabilities	48,838	53,328
Loans payable	320,233	452,446
Other liabilities	62,900	70,444
TOTAL LIABILITIES	7,445,789	6,541,773
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE NONCONTROLLING INTEREST	365,631	100,859
SHAREHOLDERS EQUITY		
Share capital		
Authorized, issued and fully paid, par value $1 each (authorized 2014: 156,000,000; 2013: 156,000,000)		
Ordinary shares (issued and outstanding 2014: 15,759,738; 2013: 13,802,706)	15,760	13,803
Non-voting convertible ordinary shares:		
Series A (issued 2014: 2,972,892; 2013: 2,972,892)	2,973	2,973
Series C (issued and outstanding 2014: 2,725,637; 2013: 2,725,637)	2,726	2,726
Series E (issued and outstanding 2014: 714,015; 2013: Nil)	714	
Treasury shares at cost (Series A non-voting convertible ordinary shares 2014: 2,972,892; 2013: 2,972,892)	(421,559)	(421,559)
Additional paid-in capital	1,320,398	962,145
Accumulated other comprehensive income	3,980	13,978
Retained earnings	1,289,266	1,181,457
Total Enstar Group Limited Shareholders Equity	2,214,258	1,755,523
Noncontrolling interest	223,767	222,000
TOTAL SHAREHOLDERS EQUITY	2,438,025	1,977,523
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 10,249,445	$ 8,620,155

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Three and Nine Month Periods Ended September 30, 2014 and 2013

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(expressed in thousands of U.S. dollars, except share and per share data)			
INCOME				
Net premiums earned	$ 195,987	$ 58,674	$ 474,561	$ 165,931
Fees and commission income	6,801	2,398	21,308	7,805
Net investment income	27,984	25,009	85,981	70,224
Net realized and unrealized (losses) gains	(18,336)	37,010	54,648	39,211
	212,436	123,091	636,498	283,171
EXPENSES				
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:	17,533	(20,388)	65,232	(38,649)
Life and annuity policy benefits	26,549	31,095	81,090	57,417
Acquisition costs	36,261	6,149	99,801	18,149
Salaries and benefits	54,525	29,716	141,598	79,013
General and administrative expenses	41,039	29,126	100,466	67,074
Interest expense	3,307	3,270	10,570	8,796
Net foreign exchange losses (gains)	6,365	(673)	7,435	(3,994)
	185,579	78,295	506,192	187,806
EARNINGS BEFORE INCOME TAXES	26,857	44,796	130,306	95,365
INCOME TAXES	(5,660)	(1,340)	(21,388)	(13,726)
NET EARNINGS	21,197	43,456	108,918	81,639
Less: Net loss (earnings) attributable to noncontrolling interest	5,232	(3,469)	(1,109)	(10,496)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 26,429	$ 39,987	$ 107,809	$ 71,143
EARNINGS PER SHARE BASIC				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	$ 1.38	$ 2.42	$ 5.94	$ 4.31

EARNINGS PER SHARE DILUTED				
Net earnings per ordinary share attributable to Enstar Group Limited shareholders	$ 1.37	$ 2.39	$ 5.84	$ 4.26
Weighted average ordinary shares outstanding basic	19,198,475	16,525,012	18,142,531	16,521,865
Weighted average ordinary shares outstanding diluted	19,331,390	16,720,715	18,445,885	16,698,640

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Month Periods Ended September 30, 2014 and 2013

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(expressed in thousands of U.S. dollars)			
NET EARNINGS	$ 21,197	$ 43,456	$ 108,918	$ 81,639
Other comprehensive (loss) income, net of tax:				
Unrealized holding losses on fixed income investments arising during the period	(3,852)	(137)	(3,393)	(1,689)
Reclassification adjustment for net realized gains (losses) included in net earnings	87	(33)	(47)	(312)
Unrealized losses arising during the period, net of reclassification adjustment	(3,765)	(170)	(3,440)	(2,001)
Currency translation adjustment	(14,815)	9,053	(8,043)	(12,448)
Total other comprehensive (loss) income	(18,580)	8,883	(11,483)	(14,449)
Comprehensive income	2,617	52,339	97,435	67,190
Less comprehensive loss (income) attributable to noncontrolling interest	8,922	(4,206)	376	(5,810)
COMPREHENSIVE INCOME ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 11,539	$ 48,133	$ 97,811	$ 61,380

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For the Nine Month Periods Ended September 30, 2014 and 2013

	Nine Months Ended September 30, 2014	2013
	(expressed in thousands of U.S. dollars)	
Share Capital Ordinary Shares		
Balance, beginning of period	$ 13,803	$ 13,752
Issue of shares	1,914	4
Share awards granted/vested	43	45
Balance, end of period	$ 15,760	$ 13,801
Share Capital Series A Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	$ 2,973	$ 2,973
Share Capital Series C Non-Voting Convertible Ordinary Shares		
Balance, beginning and end of period	$ 2,726	$ 2,726
Share Capital Series E Non-Voting Convertible Ordinary Shares		
Balance, beginning of period	$	$
Issue of shares	714	
Balance, end of period	$ 714	$
Share Capital Series B Convertible Participating Non-Voting Perpetual Preferred Stock		
Balance, beginning of period	$	$
Issue of stock	714	
Converted to Series E Non-Voting Convertible Ordinary Shares	(714)	
Balance, end of period	$	$
Treasury Shares		
Balance, beginning and end of period	$ (421,559)	$ (421,559)
Additional Paid-in Capital		
Balance, beginning of period	$ 962,145	$ 958,571
Issue of shares and warrants	354,368	487
Amortization of equity incentive plan	3,885	2,212

Balance, end of period	$ 1,320,398	$ 961,270
Accumulated Other Comprehensive Income Attributable to Enstar Group Limited		
Balance, beginning of period	$ 13,978	$ 24,439
Currency translation adjustment		
Balance, beginning of period	14,264	27,822
Change in currency translation adjustment	(7,791)	(8,254)
Balance, end of period	6,473	19,568
Defined benefit pension liability		
Balance, beginning of period	(2,249)	(7,180)
Change in defined benefit pension liability	0	0
Balance, end of period	(2,249)	(7,180)
Unrealized gain on investments		
Balance, beginning of period	1,963	3,797
Change in unrealized gain on investments, net of tax	(2,207)	(1,509)
Balance, end of period	(244)	2,288
Balance, end of period	$ 3,980	$ 14,676
Retained Earnings		
Balance, beginning of period	$ 1,181,457	$ 972,853
Net earnings attributable to Enstar Group Limited	107,809	71,143
Balance, end of period	$ 1,289,266	$ 1,043,996
Noncontrolling Interest		
Balance, beginning of period	$ 222,000	$ 221,478
Return of capital	(9,980)	
Contribution of capital	18,081	
Transfer of net loss to redeemable noncontrolling interest	1,028	
Dividends paid	(13,908)	(1,740)
Net earnings attributable to noncontrolling interest*	7,131	10,469
Foreign currency translation adjustments	(246)	(4,194)
Net movement in unrealized holding losses on investments	(339)	(492)
Balance, end of period	$ 223,767	$ 225,521

*Excludes net loss attributable to redeemable noncontrolling interest; refer to Note 12.

See accompanying notes to the unaudited condensed consolidated financial statements

ENSTAR GROUP LIMITED

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Month Periods Ended September 30, 2014 and 2013

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(expressed in thousands of U.S. dollars)	
OPERATING ACTIVITIES:		
Net earnings	$ 108,918	$ 81,639
Adjustments to reconcile net earnings to cash flows provided by operating activities:		
Net realized and unrealized investment (gains) losses	(28,509)	10,996
Net realized and unrealized gains from other investments	(26,139)	(50,207)
Other items	3,083	3,656
Depreciation and amortization	3,082	761
Net amortization of premiums and accretion of discounts	42,488	36,929
Net movement of trading securities held on behalf of policyholders	3,013	2,187
Sales and maturities of trading securities	2,302,138	2,063,258
Purchases of trading securities	(1,585,871)	(2,257,188)
Changes in assets and liabilities:		
Reinsurance balances recoverable	287,760	213,042
Funds held by reinsured companies	98,099	
Other assets	40,553	237,585
Losses and loss adjustment expenses	(630,417)	(314,862)
Policy benefits for life and annuity contracts	(44,457)	21,490
Insurance and reinsurance balances payable	(77,625)	(31,637)
Accounts payable and accrued liabilities	(14,752)	(38,459)
Other liabilities	(43,539)	(104,790)
Net cash flows provided by (used in) operating activities	437,825	(125,600)
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	$ 37,540	$ (308,710)
Sales and maturities of available-for-sale securities	98,314	181,066
Purchase of available-for-sale securities	(97,322)	(112)
Maturities of held-to-maturity securities	5,477	253
Movement in restricted cash and cash equivalents	(81,966)	(86,640)
Funding of other investments	(278,265)	(68,097)
Redemption of other investments	30,707	18,656
Other investing activities	837	15

Net cash flows used in investing activities		(284,678)		(263,569)
FINANCING ACTIVITIES:				
Distribution of capital to noncontrolling interest	$	(9,980)	$	
Contribution by redeemable noncontrolling interest		272,722		32,480
Contribution by noncontrolling interest		18,081		
Dividends paid to noncontrolling interest		(13,908)		(1,740)
Receipt of loans		70,000		274,800
Repayment of loans		(199,245)		(39,505)
Net cash flows provided by financing activities		137,670		266,035
EFFECT OF EXCHANGE RATE CHANGES ON FOREIGN CURRENCY CASH AND CASH EQUIVALENTS		(13,043)		(11,196)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		277,774		(134,330)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		643,841		654,890
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	921,615	$	520,560
Supplemental Cash Flow Information				
Net income taxes paid	$	31,207	$	24,010
Interest paid	$	13,589	$	7,326

See accompanying notes to the unaudited condensed consolidated financial statements

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014 and December 31, 2013

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

(unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation and Consolidation

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

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

- reserves for losses and loss adjustment expenses;
- policy benefits for life and annuity contracts;
- gross and net premiums written and net premiums earned;
- reinsurance balances recoverable, including the provisions for uncollectible amounts;

other-than-temporary impairments in the carrying value of available-for-sale and held-to- maturity investment securities;

valuation of certain other investments that are measured using significant unobservable inputs;

valuation of goodwill and intangible assets; and

fair value estimates associated with accounting for acquisitions.

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

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards Adopted in 2014

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

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

2. ACQUISITIONS

Companion Property and Casualty Insurance Company

On August 26, 2014, the Company and Sussex Holdings, Inc. (Sussex), an indirect, wholly owned subsidiary of the Company, entered into a definitive agreement for the purchase of all of the shares of Companion Property and Casualty Insurance Company (Companion) from Blue Cross and Blue Shield of South Carolina, an independent licensee of the Blue Cross Blue Shield Association. Companion is a South Carolina-based insurance group writing property, casualty, specialty and workers compensation business, and has also provided fronting and third party administrative services.

The total consideration for the transaction will be $218 million in cash. The Company expects to finance the purchase price through a combination of cash on hand and a bank loan facility to be finalized before closing. The Company is a party to the acquisition agreement and has guaranteed the performance by Sussex of its payment and other acquisition-related obligations set forth in the agreement.

Completion of the transaction is conditioned on, among other things, governmental and regulatory approvals and satisfaction of various customary closing conditions. The transaction is expected to close in the fourth quarter of 2014.

Torus Insurance Holdings Limited

On April 1, 2014, Kenmare Holdings Ltd. (Kenmare), a wholly-owned subsidiary of the Company, together with Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P., which are managed by Stone Point Capital LLC (collectively, Trident), completed the previously announced acquisition of Torus Insurance

Holdings Limited (Torus). Torus is an A- rated global specialty insurer with six wholly-owned insurance vehicles, including Lloyd s Syndicate 1301. At closing, Torus became directly owned by Bayshore Holdings Ltd. (Bayshore), which was 60% owned by Kenmare and 40% owned by Trident.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (Continued)

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

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

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

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

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (Continued)

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

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

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (Continued)

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

	Torus	Non-life Run-off	Total
ASSETS			
Short-term investments, trading, at fair value	$ 73,425	$ 25,888	$ 99,313
Fixed maturities, trading, at fair value	736,765	329,235	1,066,000
Other investments	2,068		2,068
Total investments	812,258	355,123	1,167,381
Cash and cash equivalents	225,118	114,490	339,608
Restricted cash and cash equivalents	22,779		22,779
Premiums receivable	307,950		307,950
Reinsurance balances recoverable reserves	210,742	152,057	362,799
Reinsurance balances recoverable paids	21,122	20,100	41,222
Prepaid reinsurance premiums	144,221	25,221	169,442
Intangible assets	43,900		43,900
Other assets	37,621		37,621
TOTAL ASSETS	$ 1,825,711	$ 666,991	$ 2,492,702
LIABILITIES			
Losses and loss adjustment expenses	$ 675,424	$ 588,822	$ 1,264,246
Insurance and reinsurance balances payable	140,997	29,047	170,044
Unearned premium	343,840	49,122	392,962
Other liabilities	22,362		22,362
TOTAL LIABILITIES	1,182,623	666,991	1,849,614
NET ASSETS ACQUIRED AT FAIR VALUE	643,088		643,088
Goodwill	13,000		13,000
ACQUISITION DATE FAIR VALUE	$ 656,088	$	$ 656,088

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

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

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (Continued)

approval. The ability to write insurance business within the syndicate capacity is indefinite, with the premium income limit being set annually by the Company, subject to Lloyd s approval.

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

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

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

From April 1, 2014, the date of acquisition, to September 30, 2014, the Company earned premiums of $258.5 million, recorded net increase in ultimate losses and loss adjustment expense liabilities of $159.6 million on those earned premiums, and recorded $18.7 million in net loss in its consolidated statement of earnings related to the active underwriting portion of the Torus segment.

From the date of acquisition to September 30, 2014, the Company earned premiums of $29.1 million, recorded net increase in ultimate losses and loss adjustment expense liabilities of $17.6 million on those earned premiums, and recorded $7.4 million in net earnings in its consolidated statement of earnings related to Torus non-life run-off business.

Supplemental Pro Forma Financial Information (Unaudited)

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

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
Total income	$ 263,504	$ 747,867	$ 783,691
Total expenses	(258,974)	(721,365)	(669,054)
Total noncontrolling interest	12,498	12,121	(3,455)

Net earnings	$	17,028	$	38,623	$	111,182

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

Atrium Employee Equity Awards

On April 17, 2014, Northshore Holdings Ltd. (Northshore), the parent company of Atrium Underwriting Group Limited (Atrium) and Arden Reinsurance Company Ltd. (Arden), implemented

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (Continued)

long-term incentive plans that awarded time-based restricted shares of Northshore to certain Atrium employees. These equity awards will have the effect of modestly reducing Kenmare s equity interest in Northshore (as well as Trident s equity interest) over the course of the vesting periods as Atrium employees acquire shares. Shares generally vest over two to three years, although certain awards began vesting in 2014.

Dowling Co-investments in Bayshore and Northshore

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

Prior to the sale of shares to Dowling, Kenmare and Trident owned 60% and 40% of Bayshore, respectively, and 57.1% and 38.1% of Northshore on a fully diluted basis, respectively (assuming full vesting of Atrium employees restricted shares totaling 4.8%). Following the sale of Bayshore shares to Dowling, Kenmare, Trident and Dowling own 59.0%, 39.3% and 1.7% of Bayshore, respectively. Following the sale of Northshore shares to Dowling, Kenmare, Trident, certain Atrium employees and Dowling own 56.1%, 37.4%, 4.8% and 1.7% of Northshore, respectively, on a fully diluted basis.[1]

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

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

In connection with the sale of Northshore shares, the Northshore Shareholders Agreement was amended and restated. The Amended and Restated Northshore Shareholders Agreement provides for

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

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. ACQUISITIONS (Continued)

substantially the same rights and obligations as the Amended and Restated Bayshore Shareholders Agreement, except that the fifth and seventh anniversaries refer to the Arden closing (which occurred on September 9, 2013).

3. SIGNIFICANT NEW BUSINESS

2014

Reciprocal of America

On July 6, 2012, our wholly-owned subsidiary, Providence Washington Insurance Company, entered into a definitive loss portfolio transfer reinsurance agreement with Reciprocal of America (in Receivership) and its Deputy Receiver relating to a portfolio of workers compensation business. The estimated total liabilities to be assumed are approximately $163.4 million, with an equivalent amount of assets to be received as consideration. Completion of the transaction is conditioned upon, among other things, regulatory approvals and satisfaction of customary closing conditions. The transaction is expected to close in the fourth quarter of 2014.

Shelbourne RITC Transactions

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

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

4. INVESTMENTS

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

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

In addition to these securities, the Company also invests in private equity funds, fixed income funds, fixed income hedge funds, equity and real estate debt funds and collateralized loan obligation (CLO) equity-tranched securities, which are all variable interests issued by VIEs. For these variable

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

interests, the Company does not have the power to direct the activities that are most significant to the economic performance of the VIEs and, accordingly, it is not the primary beneficiary for any of these VIEs. The Company s maximum exposure to loss on these interests is limited to the amount of its investment. The Company has not provided financial or other support with respect to these structured securities other than its original investment.

Trading

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

	September 30, 2014	December 31, 2013
U.S. government and agency	$ 707,269	$ 439,946
Non-U.S. government	430,425	476,224
Corporate	2,115,706	2,123,675
Municipal	28,386	41,034
Residential mortgage-backed	322,835	218,457
Commercial mortgage-backed	154,011	114,637
Asset-backed	400,629	248,748
Total fixed maturity and short-term investments	4,159,261	3,662,721
Equities U.S.	75,881	115,285
Equities International	58,517	66,748
	$ 4,293,659	$ 3,844,754

Included within residential and commercial mortgage-backed securities as at September 30, 2014 were securities issued by U.S. governmental agencies with a fair value of $283.8 million (as at December 31, 2013: $177.9 million).

The increase in the Company s investments classified as trading securities of $448.9 million was due primarily to additional fixed maturity investments acquired in the Torus acquisition.

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

As at September 30, 2014

	Fair Value	% of Total Fair Value
AAA	$ 568,933	13.7%
AA	1,875,772	45.1%
A	1,193,664	28.7%
BBB	361,677	8.7%
Non-Investment Grade	130,217	3.1%
Not Rated	28,998	0.7%
	$ 4,159,261	100.0%

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

As at December 31, 2013	Fair Value	% of Total Fair Value
AAA	$ 502,057	13.7%
AA	1,430,107	39.1%
A	1,191,142	32.5%
BBB	408,466	11.1%
Non-Investment Grade	53,148	1.5%
Not Rated	77,801	2.1%
	$ 3,662,721	100.0%

Held-to-maturity

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

As at September 30, 2014	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
U.S. government and agency	$ 20,158	$ 4	$ (404)	$ 19,758
Non-U.S. government	36,794	164	(623)	36,335
Corporate	788,658	5,262	(11,540)	782,380
	$ 845,610	$ 5,430	$ (12,567)	$ 838,473

As at December 31, 2013	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
U.S. government and agency	$ 19,992	$ 6	$ (1,866)	$ 18,132
Non-U.S. government	23,592	19	(1,284)	22,327

Corporate	815,803	105	(56,808)	759,100
	$ 859,387	$ 130	$ (59,958)	$ 799,559

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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

As at September 30, 2014	Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$ 17,247	$ 17,243	2.1%
Due after one year through five years	106,407	106,924	12.7%
Due after five years through ten years	105,614	103,824	12.4%
Due after ten years	616,342	610,482	72.8%
	$ 845,610	$ 838,473	100.0%

As at December 31, 2013	Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$ 17,541	$ 17,579	2.2%
Due after one year through five years	87,698	86,611	10.8%
Due after five years through ten years	133,102	126,541	15.8%
Due after ten years	621,046	568,828	71.2%
	$ 859,387	$ 799,559	100.0%

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

As at September 30, 2014	Amortized Cost	Fair Value	% of Total Fair Value
AAA	$ 54,111	$ 53,487	6.4%
AA	253,193	248,484	29.6%
A	491,773	490,111	58.5%
BBB	35,697	35,744	4.3%
Non-Investment Grade	10,482	10,275	1.2%
Not Rated	354	372	0.0%

	$ 845,610	$ 838,473	100.0%

As at December 31, 2013	Amortized Cost	Fair Value	% of Total Fair Value
AAA	$ 47,949	$ 44,552	5.6%
AA	259,163	239,188	29.9%
A	496,986	463,001	57.9%
BBB	49,281	47,157	5.9%
Non-Investment Grade	5,478	5,125	0.6%
Not Rated	530	536	0.1%
	$ 859,387	$ 799,559	100.0%

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Available-for-sale

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

As at September 30, 2014	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses Non-OTTI	Fair Value
U.S. government and agency	$ 27,942	$ 205	$ (47)	$ 28,100
Non-U.S. government	76,407	638	(1,620)	75,425
Corporate	89,408	906	(990)	89,324
Residential mortgage-backed	3,634	91	(90)	3,635
Asset-backed	42,307	36	(33)	42,310
	$ 239,698	$ 1,876	$ (2,780)	$ 238,794

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

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

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

As at September 30, 2014	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. government and agency	$	$	$ 22,370	$ (47)	$ 22,370	$ (47)
Non-U.S. government			42,046	(1,620)	42,046	(1,620)
Corporate			56,755	(990)	56,755	(990)
Residential mortgage-backed			1,316	(90)	1,316	(90)
Asset-backed			18,350	(33)	18,350	(33)
	$	$	$ 140,837	$ (2,780)	$ 140,837	$ (2,780)

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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

As at September 30, 2014 and December 31, 2013, the number of securities classified as available-for-sale in an unrealized loss position was 175 and 135, respectively, with a fair value of $140.8 million and $121.8 million, respectively. Of these securities, the number of securities that had been in an unrealized loss position for twelve months or longer was nil. As of September 30, 2014, none of these securities were considered to be other than temporarily impaired.

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

As at September 30, 2014	Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$ 53,038	$ 53,178	22.3%
Due after one year through five years	134,717	133,021	55.7%
Due after five years through ten years	3,487	3,334	1.4%
Due after ten years	2,515	3,316	1.4%
	193,757	192,849	80.8%
Residential mortgage-backed	3,634	3,635	1.5%
Asset-backed	42,307	42,310	17.7%
	$ 239,698	$ 238,794	100.0%

As at December 31, 2013

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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

As at September 30, 2014	Amortized Cost	Fair Value	% of Total Fair Value
AAA	$ 119,096	$ 118,266	49.5%
AA	67,051	66,719	27.9%
A	40,943	41,250	17.3%
BBB	12,608	12,559	5.3%
	$ 239,698	$ 238,794	100.0%

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

Other-Than-Temporary Impairment Process

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Other Investments

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

	September 30, 2014	December 31, 2013
Private equity funds	$ 212,532	$ 161,229
Fixed income funds	311,088	194,375
Fixed income hedge funds	66,822	68,157
Equity funds	154,280	109,355
Real estate debt fund	33,636	32,113
CLO equities	23,166	
CLO equity fund	36,506	
Other	4,525	4,064
	$ 842,555	$ 569,293

Private equity funds

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

As of September 30, 2014 and December 31, 2013, the Company had $212.5 million and $161.2 million, respectively, of other investments recorded in private equity funds, which represented 2.8% and 2.5% of total investments, cash and cash equivalents and restricted cash and cash equivalents at September 30, 2014 and December 31, 2013, respectively. Due to a lag in the valuations reported by the managers, the Company records changes in the investment value with up to a three-month lag. Management regularly reviews and discusses fund performance with the Company s fund managers to corroborate the reasonableness of the reported net asset values and to assess whether any events have occurred within the lag period that would affect the valuation of the investments.

Fixed income funds

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

Fixed income hedge funds

This class comprises hedge funds that invest in a diversified portfolio of debt securities. The hedge funds have imposed lock-up periods of three years from the time of the Company s initial investment.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Once eligible, redemptions will be permitted quarterly with 90 days notice.

Equity funds

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

Real estate debt fund

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

CLO equities

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

CLO equity fund

This class comprises a fund that invests primarily in the equity tranches of term-financed securitizations of diversified pools of corporate bank loans.

Other

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

Redemption restrictions on other investments

Certain funds included in other investments are subject to a lock-up period. A lock-up period refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem the investment. Funds that do provide for periodic redemptions may, depending on the funds governing documents, have the ability to deny or delay a redemption request, which is called a gate. The fund may restrict redemptions because the aggregate amount of redemption requests as of a particular date exceeds a specified level. The gate is a method for executing an orderly redemption process that allows for redemption requests to be executed in a timely manner to reduce the possibility of adversely affecting the remaining investors in the fund. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion to be settled in cash sometime after the redemption date.

Certain funds included in other investments may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

used is a side-pocket, whereby the illiquid security is assigned to a separate memorandum capital account or designated account. Typically, the investor loses its redemption rights in the designated account. Only when the illiquid security is sold, or is otherwise deemed liquid by the fund, may investors redeem their interest in the side-pocket.

At September 30, 2014, the Company had $2.3 million of investments subject to side-pockets ($3.2 million as of December 31, 2013). As of September 30, 2014, management has not made any adjustments to the fair value estimate reported by the fund managers for the side-pocketed investments.

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

September 30, 2014	Total Fair Value	Gated/Side Pocket Investments	Investments without Gates or Side Pockets	Unfunded Commitments	Redemption Frequency
Private equity funds	$ 212,532	$	$ 212,532	$ 106,604	Not eligible
Fixed income funds	311,088		311,088		Daily to monthly
Fixed income hedge funds	66,822	2,263	64,559		Quarterly after lock-up periods expire
Equity funds	154,280		154,280		Bi-monthly
Real estate debt fund	33,636		33,636		Monthly
CLO equity fund	36,506		36,506		Not eligible
Other	2,503		2,503	655	Not eligible
	$ 817,367	$ 2,263	$ 815,104	$ 107,259	

December 31, 2013	Total Fair Value	Gated/Side Pocket Investments	Investments without Gates or Side Pockets	Unfunded Commitments	Redemption Frequency
Private equity funds	$ 161,229	$	$ 161,229	$ 113,585	Not eligible
Fixed income funds	194,375		194,375		Daily to monthly
Fixed income hedge funds	68,157	3,150	65,007		Quarterly after lock-up periods expire

Equity funds	109,355		109,355		Bi-monthly
Real estate debt fund	32,113		32,113		Monthly
Other	4,064		4,064	655	Not eligible
	$ 569,293	$ 3,150	$ 566,143	$ 114,240	

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Fair Value of Financial Instruments

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

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2 Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company s own judgment about assumptions that market participants might use.

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

Fixed Maturity Investments

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

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

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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

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

U.S. government and agency securities consist of securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and other agencies. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. In this event, securities are classified within Level 3. As at September 30, 2014, the Company had one corporate security classified as Level 3.

Municipal securities consist primarily of bonds issued by U.S.-domiciled state and municipal entities. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes and benchmark yields. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment speeds and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2.

Residential and commercial mortgage-backed securities include both agency and non-agency originated securities. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, broker-dealer quotes, prepayment speeds and default rates. These are considered observable market inputs and, therefore, the fair values of these securities are classified within Level 2. Where pricing is unavailable from pricing services, the Company obtains non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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

Equities

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

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

Other investments

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

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

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

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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

The Company measures the fair value of its direct investment in CLO equities based on valuations provided by the Company s external CLO equity manager. 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). At September 30, 2014, the Company s externally-managed investments in CLO equities were valued using valuations provided by the external CLO equity manager and the Company s internally-managed CLO equities investments were valued using valuations provided by the brokers. The Company s CLO equities investments have been classified as Level 3 due to the use of unobservable inputs in the valuation and the limited number of relevant trades in secondary markets.

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

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

If valuations from the external CLO equity manager or brokers were not available, the Company would 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 its investments in the CLO equity fund, the Company measures fair value by obtaining the most recently published net asset value as advised by the external fund manager. The Company uses an income approach to corroborate the reasonableness of reported net asset value. The CLO equity

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

fund investment has been classified as Level 3 due to a lack of observable and relevant trades in secondary markets.

The Company s other investments have been valued based on the latest available capital statements, and have all been classified as Level 3.

Fair Value Measurements

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

	September 30, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
U.S. government and agency	$	$ 735,369	$	$ 735,369
Non-U.S. government		505,850		505,850
Corporate		2,204,416	614	2,205,030
Municipal		28,386		28,386
Residential mortgage-backed		326,470		326,470
Commercial mortgage-backed		154,011		154,011
Asset-backed		442,939		442,939
Equities U.S.	65,743	5,263	4,875	75,881
Equities International	26,238	32,279		58,517
Other investments		467,391	375,164	842,555
Total investments	$ 91,981	$ 4,902,374	$ 380,653	$ 5,375,008

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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

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

	September 30, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
U.S. government and agency	$	$ 19,758	$	$ 19,758
Non-U.S. government		36,335		36,335
Corporate		782,380		782,380

Total investments	$	$ 838,473	$	$ 838,473

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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

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

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of July 1, 2014	$ 610	$ 328,164	$ 4,875	$ 333,649
Purchases		64,923		64,923
Sales		(20,015)		(20,015)
Total realized and unrealized gains through earnings	4	2,092		2,096
Net transfers into and/or (out of) Level 3				
Level 3 investments as of September 30, 2014	$ 614	$ 375,164	$ 4,875	$ 380,653

The amount of net gains for the three months ended September 30, 2014 included in earnings attributable to the fair value of changes in assets still held at September 30, 2014 was $2.1 million. All of this amount was included in net realized and unrealized gains.

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

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of July 1, 2013	$ 606	$ 249,314	$ 4,500	$ 254,420
Purchases		5,376		5,376
Sales		(8,825)		(8,825)
Total realized and unrealized (losses) gains through earnings	(9)	11,376	(100)	11,267

Net transfers into and/or (out of) Level 3				
Level 3 investments as of September 30, 2013	$ 597	$ 257,241	$ 4,400	$ 262,238

The amount of net (losses) gains for the three months ended September 30, 2013 included in earnings attributable to the fair value of changes in assets still held at September 30, 2013 was $11.3 million. All of this amount was included in net realized and unrealized gains.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

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

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of January 1, 2014	$ 609	$ 265,569	$ 4,725	$ 270,903
Purchases		116,676		116,676
Sales		(30,707)		(30,707)
Total realized and unrealized gains through earnings	5	23,626	150	23,781
Net transfers into and/or (out of) Level 3				
Level 3 investments as of September 30, 2014	$ 614	$ 375,164	$ 4,875	$ 380,653

The amount of net gains for the nine months ended September 30, 2014 included in earnings attributable to the fair value of changes in assets still held at September 30, 2014 was $23.8 million. All of this amount was included in net realized and unrealized gains.

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

	Fixed Maturity Investments	Other Investments	Equity Securities	Total
Level 3 investments as of January 1, 2013	$ 540	$ 202,730	$ 3,402	$ 206,672
Purchases		39,533		39,533
Sales		(18,578)		(18,578)
Total realized and unrealized gains through earnings	57	33,556	998	34,611
Net transfers into and/or (out of) Level 3				

Level 3 investments as of September 30, 2013	$ 597	$ 257,241	$ 4,400	$ 262,238

The amount of net gains for the nine months ended September 30, 2013 included in earnings attributable to the fair value of changes in assets still held at September 30, 2013 was $34.6 million. All of this amount was included in net realized and unrealized gains.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Net Realized and Unrealized Gains

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Gross realized gains on available-for-sale securities	$	$ 89	$ 185	$ 354
Gross realized losses on available-for-sale securities	(87)	(56)	(138)	(42)
Net realized gains (losses) on trading securities	4,141	(4,508)	22,068	5,082
Net unrealized (losses) gains on trading securities	(14,141)	21,360	6,394	(16,390)
Net realized and unrealized (losses) gains on other investments	(8,249)	20,125	26,139	50,207
Net realized and unrealized (losses) gains	$ (18,336)	$ 37,010	$ 54,648	$ 39,211
Proceeds from sales and maturities of available-for-sale securities	$ 19,347	$ 20,923	$ 98,314	$ 181,066

Net Investment Income

Major categories of net investment income are summarized as follows:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Interest from fixed maturity investments	$ 40,184	$ 33,690	$ 114,034	$ 89,067
Interest from cash and cash equivalents and short-term investments	1,575	3,739	5,000	11,048

Net amortization of bond premiums and discounts	(14,344)	(13,668)	(42,488)	(36,929)
Dividends from equities	1,040	913	4,070	3,309
Other investments	(152)	7	588	(39)
Interest on other receivables	(193)	246	689	1,819
Other income	2,278	1,088	9,464	3,079
Interest on deposits held with clients	340	298	1,362	3,166
Policy loan interest	296		911	
Investment expenses	(3,040)	(1,304)	(7,649)	(4,296)
	$ 27,984	$ 25,009	$ 85,981	$ 70,224

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INVESTMENTS (Continued)

Restricted Assets

The Company is required to maintain investments and cash and cash equivalents on deposit with various regulatory authorities to support its insurance and reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle insurance and reinsurance liabilities. The Company also utilizes trust accounts to collateralize business with its insurance and reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trusts as collateral are primarily highly rated fixed maturity securities. The carrying value of the Company s restricted assets, including restricted cash of $502.4 million and $397.7 million, as of September 30, 2014 and December 31, 2013 was as follows:

	September 30, 2014	December 31, 2013
Collateral in trust for third party agreements	$ 2,754,358	$ 2,002,374
Assets on deposit with regulatory authorities	667,465	608,940
Collateral for secured letter of credit facilities	320,694	310,938
	$ 3,742,517	$ 2,922,252

The increase in restricted assets of $820.3 million since December 31, 2013 is primarily as a result of the acquisition of Torus.

5. REINSURANCE BALANCES RECOVERABLE

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

	September 30, 2014					December 31, 2013			
	Non-life Run-off	Atrium	Torus	Life and Annuities	Total	Non-life Run-off	Atrium	Life and Annuities	Total
Recoverable from reinsurers on:									
Outstanding losses	$ 620,451	$ 9,681	$ 175,828	$ 24,300	$ 830,260	$ 788,705	$ 10,777	$ 28,556	$ 828,038
	328,444	15,706	170,538	752	515,440	402,675	9,887	782	413,344

Losses incurred but not reported									
Fair value adjustments	(52,030)	4,391	(14,502)		(62,141)	(69,847)	4,391		(65,456)
Total reinsurance reserves recoverable	896,865	29,778	331,864	25,052	1,283,559	1,121,533	25,055	29,338	1,175,926
Paid losses recoverable	153,552	477	39,552	2,127	195,708	177,459	7,845	2,589	187,893
	$ 1,050,417	$ 30,255	$ 371,416	$ 27,179	$ 1,479,267	$ 1,298,992	$ 32,900	$ 31,927	$ 1,363,819

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. REINSURANCE BALANCES RECOVERABLE (Continued)

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

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

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

As of September 30, 2014 and December 31, 2013, the Company had, excluding reinsurance recoverables related to its life and annuities segment, reinsurance balances recoverable of $1.45 billion and $1.33 billion, respectively. The increase of $120.2 million in reinsurance balances recoverable was primarily a result of the Torus acquisition, partially offset by commutations and cash collections made during the period ended September 30, 2014.

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

For September 30, 2014 and December 31, 2013, the provision for uncollectible reinsurance recoverable relating to reinsurance balances recoverable was $324.4 million and $338.6 million, respectively. To estimate the provision for uncollectible reinsurance recoverable, the balances are first allocated to applicable reinsurers using management judgment. As part of this process, ceded incurred but not reported (IBNR) reserves are allocated by reinsurer. The ratio of the provision for uncollectible reinsurance recoverable to total non-life run-off reinsurance balances recoverable (excluding provision for uncollectible reinsurance recoverable) as of September 30, 2014 decreased to 18.0% as compared to 19.9% as of December 31, 2013, primarily as a result of reinsurance balances recoverable of Torus acquired during the year that required minimal provisions for uncollectible reinsurance recoverable, and cash collections from reinsurers with minimal bad debt provisions.

Top Ten Reinsurers

At September 30, 2014 and December 31, 2013, the top ten reinsurers of the Company s business accounted for 62.5% and 68.3%, respectively, of total reinsurance balances recoverable (which includes total reinsurance reserves and paid losses recoverable) and included $338.5 million and $290.1 million, respectively, of IBNR reserves recoverable. With the exception of one non-rated

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. REINSURANCE BALANCES RECOVERABLE (Continued)

reinsurer from which $173.2 million was recoverable (December 31, 2013: $256.2 million recoverable from one non-rated reinsurer and $41.1 million recoverable from one BBB+ rated reinsurer), the other top ten reinsurers, as at September 30, 2014 and December 31, 2013, were all rated A- or better. Reinsurance balances recoverable by reinsurer were as follows:

	September 30, 2014		December 31, 2013	
	Reinsurance Recoverables	**% of Total**	**Reinsurance Recoverables**	**% of Total**
Top 10 reinsurers	$ 924,362	62.5%	$ 930,943	68.3%
Other reinsurers balances > $1 million	540,597	36.5%	423,013	31.0%
Other reinsurers balances < $1 million	14,308	1.0%	9,863	0.7%
Total	$ 1,479,267	100.0%	$ 1,363,819	100.0%

As at September 30, 2014 and December 31, 2013, reinsurance balances recoverable with a carrying value of $330.1 million and $256.2 million, respectively, were associated with two and one reinsurers, respectively, which represented 10% or more of total non-life run-off reinsurance balances recoverable. One of the reinsurers accounting for $156.9 million of reinsurance balances recoverable as at September 30, 2014 was rated A+, while the remaining $173.2 million of reinsurance balances recoverable as at September 30, 2014 were secured by trust funds held for the benefit of the Company s insurance and reinsurance subsidiaries.

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	September 30, 2014				December 31, 2013		
	Non-life Run-off	**Atrium**	**Torus**	**Total**	**Non-life Run-off**	**Atrium**	**Total**
Outstanding	$ 2,328,269	$ 80,129	$ 368,451	$ 2,776,849	$ 2,541,934	$ 79,826	$ 2,621,760
Incurred but not reported	1,586,706	109,547	509,529	2,205,782	1,717,870	98,583	1,816,453
Fair value adjustment	(164,136)	36,984	(3,568)	(130,720)	(255,291)	36,983	(218,308)
Total	$ 3,750,839	$ 226,660	$ 874,412	$ 4,851,911	$ 4,004,513	$ 215,392	$ 4,219,905

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

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

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

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

	Three Months Ended September 30,					
	2014				2013	
	Non-life Run-off	Atrium	Torus	Total	Non-life Run-off	Total
Net losses paid	$ 127,908	$ 15,800	$ 62,083	$ 205,791	$ 92,438	$ 92,438
Net change in case and LAE reserves	(107,780)	(177)	(22,858)	(130,815)	(67,734)	(67,734)
Net change in IBNR reserves	(98,664)	(135)	39,013	(59,786)	(28,332)	(28,332)
(Reduction) increase in estimates of net ultimate losses	(78,536)	15,488	78,238	15,190	(3,628)	(3,628)
Reduction in provisions for bad debt	(5,019)			(5,019)	(5,465)	(5,465)
(Reduction) increase in provisions for unallocated loss adjustment expense liabilities	(13,317)	53	977	(12,287)	(16,320)	(16,320)
Amortization of fair value adjustments	19,649			19,649	5,025	5,025
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (77,223)	$ 15,541	$ 79,215	$ 17,533	$ (20,388)	$ (20,388)

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

	Nine Months Ended September 30,					
	2014				2013	
	Non-life Run-off	Atrium	Torus	Total	Non-life Run-off	Total
Net losses paid	$ 332,169	$ 40,643	$ 76,331	$ 449,143	$ 219,780	$ 219,780
Net change in case and LAE reserves	(248,599)	2,839	19,406	(226,354)	(189,267)	(189,267)
Net change in IBNR reserves	(190,742)	5,663	62,740	(122,339)	(23,667)	(23,667)
(Reduction) increase in estimates of net ultimate losses	(107,172)	49,145	158,477	100,450	6,846	6,846
Paid loss recoveries on bad debt provisions	(11,206)			(11,206)		
Reduction in provisions for bad debt	(5,019)			(5,019)	(5,465)	(5,465)
(Reduction) increase in provisions for unallocated loss adjustment expense liabilities	(39,549)	138	978	(38,433)	(49,518)	(49,518)
Amortization of fair value adjustments	19,340		100	19,440	9,488	9,488
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (143,606)	$ 49,283	$ 159,555	$ 65,232	$ (38,649)	$ (38,649)

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

Non-Life Run-off Segment

Three Months Ended September 30, 2014 and 2013

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

	Non-life Run-off Three Months Ended September 30,	
	2014	**2013**
Balance as at July 1 [1]	$ 4,031,262	$ 4,041,236
Less: total reinsurance reserves recoverable	935,319	888,970
	3,095,943	3,152,266
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:		
Current period	8,841	24,222
Prior periods	(86,064)	(44,610)
Total net reduction in ultimate losses and loss adjustment expense liabilities	(77,223)	(20,388)
Net losses paid:		
Current period	(3,081)	(5,756)
Prior periods	(124,827)	(86,682)
Total net losses paid	(127,908)	(92,438)
Effect of exchange rate movement	(36,838)	33,182
Acquired on purchase of subsidiaries		140,443
Assumed business		1,178
Net balance as at September 30	2,853,974	3,214,243
Plus: total reinsurance reserves recoverable	896,865	1,186,175
Balance as at September 30	$ 3,750,839	$ 4,400,418

(1) During the three months ended September 30, 2014, the Company reallocated $50.7 million of losses and loss adjustment expense liabilities from the Torus segment to the non-life run-off segment.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

The net (reduction) increase in ultimate losses and loss adjustment expense liabilities in the non-life run-off segment for the three months ended September 30, 2014 and 2013 was as follows (a reclassification of $3.9 million was made from 2013 current period net losses paid to acquisition costs in order to conform to current year presentation):

	Non-Life Run-off Three Months Ended September 30,					
	2014			2013		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$ 124,827	$ 3,081	$ 127,908	$ 86,682	$ 5,756	$ 92,438
Net change in case and LAE reserves	(108,933)	1,153	(107,780)	(76,055)	8,321	(67,734)
Net change in IBNR reserves	(103,271)	4,607	(98,664)	(38,477)	10,145	(28,332)
(Reduction) increase in estimates of net ultimate losses	(87,377)	8,841	(78,536)	(27,850)	24,222	(3,628)
Reduction in provisions for bad debt	(5,019)		(5,019)	(5,465)		(5,465)
Reduction in provisions for unallocated loss adjustment expense liabilities	(13,317)		(13,317)	(16,320)		(16,320)
Amortization of fair value adjustments	19,649		19,649	5,025		5,025
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (86,064)	$ 8,841	$ (77,223)	$ (44,610)	$ 24,222	$ (20,388)

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

Three Months Ended September 30, 2014

The net reduction in ultimate losses and loss adjustment expense liabilities for the three months ended September 30, 2014 of $77.2 million included an increase in net ultimate losses and loss adjustment expense liabilities of $8.8 million related to current period earned premium of $13.9 million (primarily for the portion of the run-off business acquired with Torus). Excluding current period net ultimate losses and loss adjustment expense liabilities of $8.8 million, net ultimate losses and loss adjustment expense liabilities relating to prior periods were reduced by $86.1 million, which was attributable to a reduction in estimates of net ultimate losses of $87.4 million, reduction in provisions for bad debt of $5.0 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $13.3 million, relating to 2014 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $19.6 million.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

The reduction in estimates of net ultimate losses relating to prior periods of $87.4 million was primarily related to:

(i) the Company s quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $12.3 million;

(ii) an aggregate reduction in IBNR reserves of $36.3 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company s actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in thirteen of the Company s insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2014, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts; and

(iii) a reduction in estimates of net ultimate losses of $44.4 million following the completion of six commutations of assumed reinsurance liabilities.

The reduction in provisions for bad debt of $5.0 million for the three months ended September 30, 2014 resulted from the collection of receivables against which bad debt provisions had been provided for in earlier periods.

Three Months Ended September 30, 2013

The net reduction in ultimate losses and loss adjustment expense liabilities for the three months ended September 30, 2013 of $20.4 million included incurred losses and net change in IBNR reserves of $24.2 million related to premiums earned in the period by SeaBright Holdings, Inc. (SeaBright). Excluding SeaBright s increase in estimates of net ultimate losses of $24.2 million, net ultimate losses and loss adjustment expense liabilities relating to prior periods were reduced by $44.6 million, which was attributable to a reduction in estimates of net ultimate losses of $27.9 million, reduction in provisions for bad debt of $5.5 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $16.3 million, relating to 2013 run-off activity, partially offset by amortization of fair value adjustments of $5.0 million.

Excluding the impact of net ultimate losses of $24.2 million relating to SeaBright, the reduction in estimates of net ultimate losses of $27.9 million (comprised of net incurred loss development of $10.6 million and reduction in IBNR reserves of $38.5 million) related primarily to:

(i) the Company s quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $10.4 million;

(ii) an aggregate reduction in IBNR reserves of $12.5 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company s actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in ten of the Company s insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2013,

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts; and

(iii) a reduction in estimates of net ultimate losses of $5.0 million following the completion of one commutation of assumed reinsurance liabilities.

The reduction in provisions for bad debt of $5.5 million for the nine months ended September 30, 2013 resulted from the collection of receivables against which bad debt provisions had been provided for in earlier periods.

Nine Months Ended September 30, 2014 and 2013

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

	Non-Life Run-off Nine Months Ended September 30,	
	2014	**2013**
Balance as at January 1	$ 4,004,513	$ 3,650,127
Less: total reinsurance reserves recoverable	1,121,533	876,220
	2,882,980	2,773,907
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:		
Current period	20,482	88,259
Prior periods	(164,088)	(126,908)
Total net reduction in ultimate losses and loss adjustment expense liabilities	(143,606)	(38,649)
Net losses paid:		
Current period	(3,873)	(11,081)
Prior periods	(317,090)	(208,699)
Total net losses paid	(320,963)	(219,780)
Effect of exchange rate movement	(29,832)	(2,180)

Acquired on purchase of subsidiaries	436,765	619,510
Assumed business	28,630	81,435
Net balance as at September 30	2,853,974	3,214,243
Plus: total reinsurance reserves recoverable	896,865	1,186,175
Balance as at September 30	$ 3,750,839	$ 4,400,418

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

Loss reserves acquired on purchase of subsidiaries during the nine months ended September 30, 2014 of $436.8 million related to the acquisition of certain lines of business within Torus, which were placed into run-off prior to acquisition. Total net losses paid are shown net of paid loss recoveries on bad debt provisions of $11.2 million.

The net (reduction) increase in ultimate losses and loss adjustment expense liabilities in the non-life run-off segment for the nine months ended September 30, 2014 and 2013 was as follows (a reclassification of $12.0 million was made from 2013 current period net losses paid to acquisition costs so as to conform to current year presentation):

	Non-Life Run-off Nine Months Ended September 30,					
	2014			2013		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$ 328,296	$ 3,873	$ 332,169	$ 208,699	$ 11,081	$ 219,780
Net change in case and LAE reserves	(250,778)	2,179	(248,599)	(212,966)	23,699	(189,267)
Net change in IBNR reserves	(205,172)	14,430	(190,742)	(77,146)	53,479	(23,667)
(Reduction) increase in estimates of net ultimate losses	(127,654)	20,482	(107,172)	(81,413)	88,259	6,846
Paid loss recoveries on provisions for bad debt	(11,206)		(11,206)			
Reduction in provisions for bad debt	(5,019)		(5,019)	(5,465)		(5,465)
Reduction in provisions for unallocated loss adjustment expense liabilities	(39,549)		(39,549)	(49,518)		(49,518)
Amortization of fair value adjustments	19,340		19,340	9,488		9,488
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (164,088)	$ 20,482	$ (143,606)	$ (126,908)	$ 88,259	$ (38,649)

Nine Months Ended September 30, 2014

The net reduction in ultimate losses and loss adjustment expense liabilities for the nine months ended September 30, 2014 of $143.6 million included an increase in net ultimate losses and loss adjustment expense liabilities of $20.5 million related to current period earned premium of $33.5 million (primarily for the portion of the run-off business acquired with Torus). Excluding current period net ultimate losses and loss adjustment expense liabilities of $20.5 million, net ultimate losses and loss adjustment expense liabilities relating to prior periods were reduced by $164.1 million, which was attributable to a reduction in estimates of net ultimate losses of $127.7 million, paid loss recoveries on provisions for bad debt of $11.2 million, reduction in provisions for bad debt of $5.0 million and a reduction in provisions for unallocated loss adjustment expense liabilities of $39.5 million, relating to 2014 run-off activity, partially offset by amortization of fair value adjustments over the estimated payout period relating to companies acquired amounting to $19.3 million.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

The reduction in estimates of net ultimate losses relating to prior periods of $127.7 million was related primarily to:

(i) the Company s quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $25.9 million;

(ii) a reduction in IBNR reserves of $46.3 million primarily as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company s actuarial methodologies to revised historical loss development data to estimate loss reserves required to cover liabilities for unpaid losses and loss adjustment expense liabilities relating to non-commuted exposures in fourteen of the Company s insurance and reinsurance subsidiaries. The prior period estimate of aggregate IBNR liabilities was reduced as a result of the combined impact on all classes of business of loss development activity during 2014, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts;

(iii) a reduction in estimates of net ultimate losses of $44.4 million following the completion of six commutations of assumed reinsurance liabilities; and

(iv) favorable claims settlements during the nine months ended September 30, 2014 resulting in a reduction in estimates of net ultimate losses of approximately $11.1 million.

The reduction in provisions for bad debt of $5.0 million for the nine months ended September 30, 2014 resulted from the collection of receivables against which bad debt provisions had been provided for in earlier periods.

Nine Months Ended September 30, 2013

The net reduction in ultimate losses and loss adjustment expense liabilities for the nine months ended September 30, 2013 of $38.6 million included incurred losses and net change in IBNR reserves of $88.3 million related to premiums earned in the period by SeaBright. Excluding SeaBright s increase in estimates of net ultimate losses of $88.3 million, net ultimate losses and loss adjustment expense liabilities relating to prior periods were reduced by $126.9 million, which was attributable to a reduction in estimates of net ultimate losses of $81.4 million, reduction in provisions for bad debt of $5.5 million and reduction in provisions for unallocated loss adjustment expense liabilities of $49.5 million, relating to 2013 run-off activity, partially offset by amortization of fair value adjustments of $9.5 million.

Excluding the impact of net ultimate losses of $88.3 million relating to SeaBright, the reduction in estimates of net ultimate losses of $81.4 million (comprised of net favorable incurred loss development of $4.3 million and reduction in IBNR reserves of $77.1 million) related primarily to:

(i) the Company s quarterly review of historic case reserves for which no updated advices had been received for a number of years. This review identified the redundancy of a number of advised case reserves with an estimated aggregate value of approximately $27.0 million;

(ii) a reduction in estimates of net ultimate losses of $21.7 million relating to the settlement of six commutations and policy buy-backs of assumed and ceded exposures including the commutation of one of the Company s top ten ceded reinsurance balances recoverable; and

(iii) an aggregate reduction in IBNR reserves of $32.7 million as a result of the application, on a basis consistent with the assumptions applied in the prior period, of the Company s actuarial methodologies to revised historical loss development data to estimate loss reserves required

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

to cover liabilities for unpaid losses and loss adjustment expenses relating to non-commuted exposures in eleven of the Company s insurance and reinsurance subsidiaries. The prior period estimate of aggregate net IBNR liabilities for these subsidiaries was reduced as a result of the combined impact on all classes of business of loss development activity during 2013, including commutations and the favorable trend of loss development related to non-commuted policies compared to prior forecasts.

The reduction in provisions for bad debt of $5.5 million for the nine months ended September 30, 2013 resulted from the collection of receivables against which bad debt provisions had been provided for in earlier periods.

Atrium and Torus Segments

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

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

	Three Months Ended September 30, 2014	
	Atrium	**Torus**
Balance as at July 1 [(1)]	$ 226,920	$ 866,809
Less: total reinsurance reserves recoverable	26,993	336,150
	199,927	530,659
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:		
Current period	19,348	84,580
Prior periods	(3,807)	(5,365)
Total net increase in ultimate losses and loss adjustment expense liabilities	15,541	79,215
Net losses paid:		
Current period	(8,914)	(22,787)
Prior periods	(6,886)	(39,296)

Total net losses paid	(15,800)	(62,083)
Effect of exchange rate movement	(2,786)	(5,243)
Net balance as at September 30	196,882	542,548
Plus: total reinsurance reserves recoverable	29,778	331,864
Balance as at September 30	$ 226,660	$ 874,412

(1) During the three months ended September 30, 2014, the Company reallocated $50.7 million of losses and loss adjustment expense liabilities from the Torus segment to the non-life run-off segment.

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

	Nine Months Ended September 30, 2014	
	Atrium	Torus
Balance as at January 1	$ 215,392	$
Less: total reinsurance reserves recoverable	25,055	
	190,337	
Net increase (reduction) in ultimate losses and loss adjustment expense liabilities:		
Current period	59,566	164,920
Prior periods	(10,283)	(5,365)
Total net increase in ultimate losses and loss adjustment expense liabilities	49,283	159,555
Net losses paid:		
Current period	(18,730)	(25,637)
Prior periods	(21,913)	(50,694)
Total net losses paid	(40,643)	(76,331)
Effect of exchange rate movement	(2,095)	(5,358)
Acquired on purchase of subsidiaries		464,682
Net balance as at September 30	196,882	542,548
Plus: total reinsurance reserves recoverable	29,778	331,864
Balance as at September 30	$ 226,660	$ 874,412

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

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

	Three Months Ended September 30, 2014					
	Atrium			Torus		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$ 6,886	$ 8,914	$ 15,800	$ 39,296	$ 22,787	$ 62,083
Net change in case and LAE reserves	(5,128)	4,951	(177)	(14,819)	(8,039)	(22,858)
Net change in IBNR reserves	(5,486)	5,351	(135)	(29,117)	68,130	39,013
(Reduction) increase in estimates of net ultimate losses	(3,728)	19,216	15,488	(4,640)	82,878	78,238
(Reduction) increase in provisions for unallocated loss adjustment expense liabilities	(79)	132	53	(725)	1,702	977
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	$ (3,807)	$ 19,348	$ 15,541	$ (5,365)	$ 84,580	$ 79,215

	Nine Months Ended September 30, 2014					
	Atrium			Torus		
	Prior Period	Current Period	Total	Prior Period	Current Period	Total
Net losses paid	$ 21,913	$ 18,730	$ 40,643	$ 50,694	$ 25,637	$ 76,331
Net change in case and LAE reserves	(12,970)	15,809	2,839	19,595	(189)	19,406
Net change in IBNR reserves	(18,906)	24,569	5,663	(74,929)	137,669	62,740
(Reduction) increase in estimates of net ultimate losses	(9,963)	59,108	49,145	(4,640)	163,117	158,477
(Reduction) increase in provisions for unallocated loss adjustment expense liabilities	(320)	458	138	(725)	1,703	978
Amortization of fair value adjustments					100	100
	$ (10,283)	$ 59,566	$ 49,283	$ (5,365)	$ 164,920	$ 159,555

Net (reduction) increase in ultimate losses and loss adjustment expense liabilities

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. POLICY BENEFITS FOR LIFE AND ANNUITY CONTRACTS

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

	September 30, 2014	December 31, 2013
Life	$ 350,700	$ 380,874
Annuities	941,556	963,323
	1,292,256	1,344,197
Fair value adjustments	(63,613)	(71,097)
	$ 1,228,643	$ 1,273,100

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

8. PREMIUMS WRITTEN AND EARNED

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned	Premiums Written	Premiums Earned
Non-life run-off								
Gross	$ 8,308	$ 18,364	$ 1,394	$ 30,758	$ 16,347	$ 43,539	$ 17,936	$ 110,308
Ceded	(2,012)	(4,490)	(1,825)	(2,624)	(3,191)	(10,054)	(7,489)	(10,038)
Net	$ 6,296	$ 13,874	$ (431)	$ 28,134	$ 13,156	$ 33,485	$ 10,447	$ 100,270
Atrium								
Gross	$ 34,081	$ 38,800	$	$	$ 121,515	$ 115,099	$	$
Ceded	(3,899)	(3,950)			(13,619)	(13,613)		
Net	$ 30,182	$ 34,850	$	$	$ 107,896	$ 101,486	$	$

Torus								
Gross	$ 157,655	$ 176,978	$	$	$ 328,301	$ 362,731	$	$
Ceded	(43,776)	(56,749)			(83,981)	(104,263)		
Net	$ 113,879	$ 120,229	$	$	$ 244,320	$ 258,468	$	$
Life and annuities								
Life	$ 26,701	$ 27,035	$ 29,459	$ 30,540	$ 79,885	$ 81,122	$ 63,193	$ 65,661
Total	$ 177,058	$ 195,987	$ 29,028	$ 58,674	$ 445,257	$ 474,561	$ 73,640	$ 165,931

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. PREMIUMS WRITTEN AND EARNED (Continued)

Atrium

Net premiums written and earned by Atrium totaled $30.2 million and $34.9 million, respectively, for the three months ended September 30, 2014, and $107.9 million and $101.5 million, respectively, for the nine months ended September 30, 2014.

Torus

Net premiums written and earned by Torus totaled $113.9 million and $120.2 million, respectively, for the three months ended September 30, 2014, and $244.3 million and $258.5 million, respectively, for the nine months ended September 30, 2014.

In addition, the Company has, for the three months ended September 30, 2014, included net premiums written and earned of $5.2 million and $13.2 million, respectively, in its non-life run-off segment relating to certain lines of business within Torus, which were placed into run-off prior to acquisition. For the nine months ended September 30, 2014, the Company included in its non-life run-off segment net premiums written and earned of $10.5 million and $29.1 million, respectively, relating to these Torus lines.

Life and annuities

Life and annuity premiums written in the Company s life and annuities segment totaled $26.7 million and $29.5 million for the three months ended September 30, 2014 and 2013, respectively. Net earned premiums over the same periods totaled $27.0 million and $30.5 million, respectively.

Life and annuity premiums written in the Company s life and annuities segment totaled $79.9 million and $63.2 million for the nine months ended September 30, 2014 and 2013, respectively. Net earned premiums over the same periods totaled $81.1 million and $65.7 million, respectively.

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

9. RETROSPECTIVELY RATED CONTRACTS

On October 1, 2003, SeaBright began selling workers compensation insurance policies for which the premiums varied based on loss experience. Accrued retrospective premiums are determined based upon the loss experience of business subject to such experience rating adjustment, and are determined by and allocated to individual policyholder accounts. Accrued retrospective premiums are recorded as additions to written or earned premium, and return retrospective premiums are recorded as reductions from written or earned premium. During the period from February 7, 2013, the date of the Company s acquisition of SeaBright, to September 30, 2014, none of the Company s direct premiums written related to retrospectively rated contracts. As at September 30, 2014, the Company recognized $8.7 million

(December 31, 2013: $8.8 million) for retrospective premiums receivable and $26.8 million (December 31, 2013: $27.5 million) for return retrospective premiums.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. GOODWILL AND INTANGIBLE ASSETS

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

	Goodwill	Intangible assets with a definite life - Other	Intangible assets with an indefinite life	Total	Intangible assets with a definite life - FVA
Balance as at December 31, 2013	$ 60,071	$ 27,000	$ 63,000	$ 150,071	$ 223,947
Acquired during the period	13,000	20,000	23,900	56,900	(65,000)
Intangible assets amortization		(3,985)		(3,985)	(26,755)
Balance as at September 30, 2014	$ 73,071	$ 43,015	$ 86,900	$ 202,986	$ 132,192

Intangible assets with a definite life include:

(i) Fair value adjustments (FVA) relate to outstanding losses and loss adjustment expenses, policy benefits for life and annuity contracts, unearned premiums and reinsurance recoverables and are included as a component of each balance sheet item. FVA are amortized in proportion to future premiums for policy benefits for life and annuity contracts, over the estimated payout or recovery period for outstanding losses and loss adjustment expenses and reinsurance recoverables and as the unearned premiums expire for business in-force as of the acquisition date; and

(ii) Other intangible assets relate to the values associated with the distribution channel, technology and brand related to the Company s acquisitions of Atrium and Torus. These assets are amortized on a straight-line basis over a period ranging from four to fifteen years.

Intangible asset amortization for the three and nine months ended September 30, 2014 was $24.1 million and $30.7 million, respectively, as compared to $15.1 million and $22.1 million for the comparative periods in 2013.

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

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. GOODWILL AND INTANGIBLE ASSETS (Continued)

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

	September 30, 2014			December 31, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets with a definite life:						
Fair value adjustments:						
Losses and loss adjustment expense liabilities	$ 449,987	$ (319,267)	$ 130,720	$ 500,485	$ (282,178)	$ 218,307
Reinsurance balances recoverable	(193,617)	131,476	(62,141)	(179,116)	113,659	(65,457)
Policy benefits for life and annuity contracts	86,332	(22,719)	63,613	86,332	(15,235)	71,097
Total	$ 342,702	$ (210,510)	$ 132,192	$ 407,701	$ (183,754)	$ 223,947
Other:						
Distribution channel	$ 20,000	$ (1,110)	$ 18,890	$ 20,000	$	$ 20,000
Technology	15,000	(1,875)	13,125			
Brand	12,000	(1,000)	11,000	7,000		7,000
Total	$ 47,000	$ (3,985)	$ 43,015	$ 27,000	$	$ 27,000
Intangible assets with an indefinite life:						
Lloyd s syndicate capacity	$ 36,900	$	$ 36,900	$ 32,900	$	$ 32,900
Licenses	19,900		19,900			
Management contract	30,100		30,100	30,100		30,100
Total	$ 86,900	$	$ 86,900	$ 63,000	$	$ 63,000

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. LOANS PAYABLE

As of September 30, 2014 and December 31, 2013, the outstanding balances associated with the Company s outstanding credit facilities were:

Facility	Date of Facility	Facility Term	September 30, 2014	December 31, 2013
EGL Revolving Credit Facility	September 16, 2014	5 Years	$ 319,550	$
Prior EGL Revolving Credit Facility	July 8, 2013	5 Years		258,800
SeaBright Facility	December 21, 2012	3 Years		111,000
Clarendon Facility	July 12, 2011	4 Years		78,995
Total long-term bank debt			319,550	448,795
Accrued interest			683	3,651
Total loans payable			$ 320,233	$ 452,446

EGL Revolving Credit Facility

On September 16, 2014, the Company and certain of its subsidiaries, as borrowers and as guarantors, entered into a new Revolving Credit Facility Agreement with National Australia Bank Limited (NAB), Barclays Bank PLC (Barclays), and Royal Bank of Canada (RBC), as mandated lead arrangers and original lenders, and NAB as agent (the Credit Agreement).

The Credit Agreement provides for an unsecured five-year revolving credit facility (expiring in September 2019) pursuant to which the Company is permitted to borrow up to an aggregate of $500 million (the EGL Revolving Credit Facility), which is available to fund permitted acquisitions and for general corporate purposes. The Credit Agreement replaces and refinances the Company s Prior Credit Agreement (as defined below). The Company s ability to draw on the EGL Revolving Credit Facility is subject to customary conditions.

Interest is payable at the end of each interest period chosen by the Company or, at the latest, each six months. The interest rate is LIBOR plus a margin factor initially set at 2.75%. The margin factor is subject to variation (ranging from 2.50% to 3.25%) in the event of a change to the Company s long term senior unsecured debt rating assigned by Standard & Poor s Ratings Services or Fitch Ratings Ltd. Any unused portion of the EGL Revolving Credit Facility will be subject to a commitment fee of 35% of the applicable margin factor. The EGL Revolving Credit Facility imposes various financial and business covenants on the Company and its subsidiaries, including certain limitations on mergers and consolidations, acquisitions, indebtedness and guarantees, restrictions as to dispositions of stock and assets, and limitations on liens.

During the existence of any event of default (as specified in the Credit Agreement), the agent may cancel the commitments of the lenders, declare all or a portion of outstanding amounts immediately due and payable or declare all or a portion of outstanding amounts payable upon demand. During the existence of any payment default, the interest rate would be increased by 1.0%. The EGL Revolving Credit Facility terminates and all amounts borrowed must be repaid on the fifth anniversary of the date of the Credit Agreement.

The Credit Agreement refinances and replaces, in its entirety, the Company s Revolving Credit Facility Agreement, originally dated June 14, 2011, as amended from time to time, and as amended

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. LOANS PAYABLE (Continued)

and restated pursuant to the Restatement Agreement, dated July 8, 2013, among the Company and certain of its subsidiaries, NAB and Barclays, as mandated lead arrangers, NAB, Barclays and RBC, as original lenders, and NAB as agent (the Prior Credit Agreement). The Prior Credit Agreement had permitted the Company to borrow up to an aggregate of $375 million on a secured basis over a five-year term (the Prior EGL Revolving Credit Facility). Effective September 16, 2014 and concurrent with its entry into the Credit Agreement, the Company terminated the Prior Credit Agreement. Outstanding borrowings under the Prior EGL Revolving Credit Facility totaled $319.6 million and were refinanced on September 16, 2014 with borrowings pursuant to the EGL Revolving Credit Facility.

The Company was in compliance with all covenants under the Prior Credit Agreement and no material early termination fees were incurred in connection with the termination.

The Prior EGL Revolving Credit Facility had been secured by a first priority lien on the stock of certain of the Company s subsidiaries and certain bank accounts held with Barclays in the name of the Company and into which amounts received in respect of any capital release from certain of the Company s subsidiaries were required to be paid. In connection with the termination of the Prior Credit Agreement, all security pursuant to the Prior EGL Revolving Credit Facility was released, effective September 16, 2014.

As of September 30, 2014, the unused portion of the EGL Revolving Credit Facility was approximately $180.5 million. As of September 30, 2014, all of the covenants relating to the EGL Revolving Credit Facility were met.

Clarendon Facility

On September 30, 2014, the Company fully repaid the remaining $66.0 million of outstanding principal and accrued interest on its term facility related to the acquisition of Clarendon National Insurance Company (the Clarendon Facility) out of the proceeds of distributions from Clarendon. The Company had previously repaid $13.0 million of the outstanding principal on the Clarendon Facility on March 17, 2014. All security pursuant to the Clarendon Facility was released in connection with the full repayment of the facility.

SeaBright Facility

On June 25, 2014, the Company fully repaid the remaining $89.0 million of outstanding principal and accrued interest on its term facility related to the acquisition of SeaBright (the SeaBright Facility) out of the proceeds of distributions from SeaBright. The Company had previously repaid $22.0 million of the outstanding principal on the SeaBright Facility on March 31, 2014. All security pursuant to the SeaBright Facility was released in connection with the full repayment of the facility.

12. REDEEMABLE NONCONTROLLING INTEREST

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

	As at September 30, 2014	
	Bayshore	**Northshore**
Trident	39.32%	38.97%

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. REDEEMABLE NONCONTROLLING INTEREST (Continued)

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

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

During the second quarter of 2014, a Fitzwilliam Insurance Limited (Fitzwilliam) segregated cell, of which Kenmare owned 60% and Trident owned 40%, entered into a 100% quota share reinsurance of Torus non-life run-off reserves with effect from January 1, 2014. On September 30, 2014, Kenmare and Trident transferred their interests in the Fitzwilliam cell to Bayshore, with Trident s $18.1 million portion of the total capital contribution to Bayshore increasing its RNCI in Bayshore.

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

Redeemable noncontrolling interest	**Trident**
Balance as at December 31, 2013	$ 100,859
Capital contributions	272,722
Net loss attributable to RNCI	(6,022)
Accumulated other comprehensive income attributable to RNCI	(900)
Transfer of net loss from noncontrolling interest	(1,028)
Balance as at September 30, 2014	$ 365,631

13. SHARE CAPITAL

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. SHARE CAPITAL (Continued)

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

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

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

The Series E Non-Voting Ordinary Shares:

- have all of the economic rights (including dividend rights) attaching to Voting Ordinary Shares but are non-voting except in certain limited circumstances;

- will automatically convert at a one-for-one exchange ratio (subject to adjustment for share splits, dividends, recapitalizations, consolidations or similar transactions) into Voting Ordinary Shares if the registered holder transfers them in a widely dispersed offering;

- may only vote on matters as required under Bermuda law, and if required to vote under Bermuda law in connection with any merger, consolidation or amalgamation of the Company, would have aggregate voting power not to exceed 0.01% of the aggregate voting power of the Company s issued share capital; and

- require the registered holders written consent in order to vary the rights of the shares in a significant and adverse manner.

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic earnings per ordinary share:				
Net earnings attributable to Enstar Group Limited	$ 26,429	$ 39,987	$ 107,809	$ 71,143
Weighted average ordinary shares outstanding basic	19,198,475	16,525,012	18,142,531	16,521,865
Net earnings per ordinary share attributable to Enstar Group Limited basic	$ 1.38	$ 2.42	$ 5.94	$ 4.31
Diluted earnings per ordinary share:				
Net earnings attributable to Enstar Group Limited	$ 26,429	$ 39,987	$ 107,809	$ 71,143
Weighted average ordinary shares outstanding basic	19,198,475	16,525,012	18,142,531	16,521,865
Share equivalents:				
Unvested shares	56,455	116,503	47,955	118,756
Restricted share units	10,671	18,521	17,527	17,588
Preferred shares			183,081	
Warrants	65,789	60,679	54,791	40,431
Weighted average ordinary shares outstanding diluted	19,331,390	16,720,715	18,445,885	16,698,640
Net earnings per ordinary share attributable to Enstar Group Limited diluted	$ 1.37	$ 2.39	$ 5.84	$ 4.26

15. EMPLOYEE BENEFITS

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. EMPLOYEE BENEFITS (Continued)

2006 Equity Incentive Plan

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

	Nine Months Ended September 30, 2014		2013	
	Number of Shares	**Weighted Average Fair Value of the Award**	**Number of Shares**	**Weighted Average Fair Value of the Award**
Nonvested January 1	115,159	$ 15,997	160,644	$ 17,989
Granted	28,816	3,830	6,344	767
Vested	(46,957)	(6,256)	(49,253)	(5,715)
Nonvested September 30	97,018	$ 14,624	117,735	$ 15,656

The total unrecognized compensation cost related to the Company s non-vested share awards under the Equity Plan as at September 30, 2014 and 2013 was $5.2 million and $5.7 million, respectively. This cost is expected to be recognized over the next 2.3 years. Compensation costs of $1.2 million and $2.8 million relating to these share awards were recognized in the Company s statement of earnings for the three and nine months ended September 30, 2014, respectively, as compared to costs of $0.7 million and $2.2 million, respectively, for the three and nine months ended September 30, 2013.

For the nine months ended September 30, 2014 and 2013, 24,412 and nil shares, respectively, were awarded to non-executive officer employees under the 2006 Equity Incentive Plan (the Equity Plan), in addition to the 3,006 and 3,768 shares issued related to the Company s employee share purchase plan during the same periods, respectively.

Cash-Settled Stock Appreciation Rights

During the nine months ended September 30, 2014, the Company granted cash-settled stock appreciation right awards (SARs) under the Equity Plan. SARs give the holder the right, upon exercise, to receive in cash the difference between the market price per share of the Company s ordinary shares at the time of exercise and the exercise price of the SARs. The exercise price of the SAR is equal to the market price of the Company s ordinary shares on the date of the grant. Vested SARs are exercisable for periods not to exceed either 4 or 10 years from the date of grant.

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

During the three and nine months ended September 30, 2014, the Company granted 678,586 and 1,051,901 SARs, respectively, to certain employees pursuant to the terms of the Equity Plan and

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. EMPLOYEE BENEFITS (Continued)

recorded a compensation expense of $2.2 million and $3.2 million, respectively, in respect of the awards.

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

	September 30, 2014
Weighted average fair value of the SARs	$ 31.62
Weighted average volatility	24.01%
Weighted average risk-free interest rate	0.97%
Dividend yield	

The following table summarizes SARs activity:

	Number of SAR s	Weighted Average Exercise Price per SAR	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value [(1)]
Outstanding as at January 1, 2014				
Granted	1,051,901	$ 140.17		
Outstanding as at September 30, 2014	1,051,901	$ 140.17	2.52	$

(1) The aggregate intrinsic value is calculated as the pre-tax difference between the exercise price of the underlying share awards and the closing price per share of the Company s ordinary shares of $136.32 on September 30, 2014.

2011-2015 Annual Incentive Compensation Program

The accrued expense relating to the Enstar Group Limited 2011-2015 Annual Incentive Compensation Program for the three and nine months ended September 30, 2014 was $4.4 million and $18.8 million, respectively, as compared to of $7.1 million and $12.6 million, respectively, for the three and nine months ended September 30, 2013.

Enstar Group Limited Employee Share Purchase Plan

For both the three and nine months ended September 30, 2014 and 2013, compensation costs of less than $0.1 million and $0.2 million, respectively, relating to the shares issued under the Amended and Restated Enstar Group Limited Employee Share Purchase Plan (Share Plan) were recognized in the Company s statement of earnings. For the nine months ended September 30, 2014 and 2013, 4,404 and 3,768 shares, respectively, have been issued to employees under the Share Plan.

Deferred Compensation and Ordinary Share Plan for Non-Employee Directors

For the nine months ended September 30, 2014 and 2013, 2,974 and 2,640 restricted share units, respectively, were credited to the accounts of non-employee directors under the Enstar Group Limited Deferred Compensation and Ordinary Share Plan for Non-Employee Directors (the Deferred

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. EMPLOYEE BENEFITS (Continued)

Compensation Plan). The Company recorded expenses related to the restricted share units for the three and nine month periods ended September 30, 2014 of $0.1 million and $0.4 million, respectively, as compared to $0.1 million and $0.3 million, respectively, for the three and nine months ended September 30, 2013.

Following the resignations of Whit Armstrong and Charles T. Akre, Jr. from the Board of Directors, 11,749 restricted share units previously credited to their accounts under the Deferred Compensation Plan were converted into the same number of the Company s ordinary shares on July 1, 2014, with fractional shares paid in cash. Also on July 1, 2014, 14,922 restricted stock units previously credited to Mr. Armstrong s account under a deferred compensation plan assumed in the Company s merger with Enstar USA, Inc., now a wholly-owned subsidiary of the Company, were converted into the same number of the Company s ordinary shares.

Pension Plan

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

Pension expense for the three and nine months ended September 30, 2014 was $2.8 million and $8.1 million, respectively, as compared to $1.4 million and $4.5 million, respectively, for the three and nine months periods ended September 30, 2013. The increase for the three and nine months ended September 30, 2014 over the same periods in 2013 was attributable to the increase in employee headcount (and associated additional defined contribution plan expense) as a result of the April 2014 acquisition of Torus and the November 2013 acquisition of Atrium.

The Company recorded pension expense relating to the PWAC Plan of $0.1 million and $0.4 million for the three and nine month periods ended September 30, 2014, respectively, as compared to $0.1 million and $0.5 million, respectively, for the three and nine months periods ended September 30, 2013. The PWAC Plan is described in Note 17 to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

16. TAXATION

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

Earnings before income taxes includes the following components:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Domestic (Bermuda)	$ (22,740)	$ (913)	$ 11,238	$ 77,134
Foreign	49,597	45,709	119,068	18,231
Total	$ 26,857	$ 44,796	$ 130,306	$ 95,365

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. TAXATION (Continued)

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Current:				
Domestic (Bermuda)	$	$	$	$
Foreign	6,540	6,842	26,522	21,172
	6,540	6,842	26,522	21,172
Deferred:				
Domestic (Bermuda)				
Foreign	(880)	(5,502)	(5,134)	(7,446)
	(880)	(5,502)	(5,134)	(7,446)
Total tax expense	$ 5,660	$ 1,340	$ 21,388	$ 13,726

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

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

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

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Earnings before income tax	$ 26,857	$ 44,796	$ 130,306	$ 95,365

Expected tax rate	0.0%	0.0%	0.0%	0.0%
Foreign taxes at local expected rates	19.3%	23.2%	17.4%	(2.1)%
Change in uncertain tax positions	0.0%	0.0%	(1.7)%	(2.8)%
Change in valuation allowance	(0.4)%	(16.2)%	0.0%	21.5%
Other	2.2%	(4.0)%	0.7%	(2.2)%
Effective tax rate	21.1%	3.0%	16.4%	14.4%

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

The Company had unrecognized tax benefits of $nil and $2.2 million relating to uncertain tax positions as of September 30, 2014 and December 31, 2013, respectively. During the nine months

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. TAXATION (Continued)

ended September 30, 2014, there were certain reductions to unrecognized tax benefits of $2.2 million due to the expiration of statutes of limitation.

The Company s operating subsidiaries in specific countries may be subject to audit by various tax authorities and may have different statutes of limitations expiration dates. With limited exceptions, the Company s major subsidiaries that operate in the United States, United Kingdom and Australia are no longer subject to tax examinations for years before 2011, 2010 and 2007, respectively.

17. RELATED PARTY TRANSACTIONS

Stone Point Capital LLC

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

In addition, the Company has entered into certain agreements with Trident with respect to Trident s co-investments in Atrium, Arden, and Torus. These include investors agreements and shareholders agreements, which provide for, among other things: (i) the Company s right to redeem Trident s equity interest in the Atrium/Arden and Torus transactions in cash at fair market value within the 90 days following the fifth anniversary of the Arden and Torus closings, respectively, and at any time following the seventh anniversary of the Arden and Torus closings, respectively; and (ii) Trident s right to have its equity co-investment interests in the Atrium/Arden and Torus transactions redeemed by the Company at fair market value (which the Company may satisfy in either cash or its ordinary shares) following the seventh anniversaries of the Arden closing and Torus closing, respectively. As of September 30, 2014, the Company has included $365.6 million as a component of redeemable noncontrolling interest on its balance sheet relating to these Trident co-investment transactions. Pursuant to the terms of the shareholders agreements, Mr. Carey serves as a Trident representative on the boards of Torus and the holding companies established in connection with the Atrium/Arden and Torus co-investment transactions.

As of September 30, 2014, the Company had investments in four funds (carried within other investments) affiliated with entities owned by Trident, with a fair value of $225.5 million (December 31, 2013: two funds with a fair value of $87.7 million).

The Company also has separate accounts managed by Eagle Point Credit Management, which is an affiliate of entities owned by Trident, with respect to which the Company incurred approximately $0.1 million and $0.2 million in management fees for the three and nine months ended September 30, 2014, respectively.

The Company has also invested in two funds managed by Sound Point Capital, an entity in which Mr. Carey has an indirect minority ownership interest and serves as director. During the three months ended September 2014, the Company invested $17.5 million in the second Sound Point Capital fund.

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. RELATED PARTY TRANSACTIONS (Continued)

The fair value of the Company s investments in Sound Point Capital funds was $39.9 million and $21.6 million as of September 30, 2014 and December 31, 2013, respectively. For the nine months ended September 30, 2014 and 2013, the Company has recognized $0.8 million and $0.7 million, respectively, in net realized and unrealized gains in respect of Sound Point Capital investments.

Goldman Sachs & Co.

Affiliates of Goldman Sachs & Co. (Goldman Sachs) own approximately 4.2% of the Company s Voting Ordinary Shares and 100% of the Company s Series C Non-Voting Ordinary Shares. Sumit Rajpal, a managing director of Goldman Sachs, was appointed to the Board of Directors in connection with Goldman Sachs investment in the Company. As of September 30, 2014, the Company had an investment in a fund (carried within other investments) affiliated with entities owned by Goldman Sachs, which had a fair value of $10.2 million (December 31, 2013: fair value of $3.2 million). During the nine months ended September 30, 2014, the Company invested £12.5 million (approximately $21.4 million) in indirect non-voting interests of two companies affiliated with Hastings Insurance Group Limited. The Company s interests are held in accounts managed by affiliates of Goldman Sachs, with respect to which the Company incurred approximately $0.1 million in management fees for each of the three and nine months ended September 30, 2014. Goldman Sachs affiliates have an approximately 50% interest in the Hastings companies, and Mr. Rajpal serves as a director of the entities in which the Company has invested.

Affiliates of Goldman Sachs own approximately 22% of Global Atlantic Financial Group (GAFG), which owns entities that provide reinsurance to Arden. As at September 30, 2014 and December 31, 2013, the Company s total reinsurance recoverable from GAFG entities amounted to $239.7 million and $340.8 million, respectively. As at September 30, 2014 and December 31, 2013, reinsurance balances recoverable from a particular non-rated GAFG entity with a carrying value of $173.2 million and $256.1 million, respectively, represented 10% or more of the Company s total non-life run-off reinsurance balances recoverable. The $173.2 million and $256.1 million recoverable from that GAFG entity at September 30, 2014 and December 31, 2013, respectively, was secured by a trust fund. The balance of $66.5 million and $84.7 million as at September 30, 2014 and December 31, 2013, respectively, was recoverable from GAFG entities rated A- and higher.

18. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

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

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. COMMITMENTS AND CONTINGENCIES (Continued)

As of September 30, 2014, the Company s investments are held by 34 different custodians. These custodians are all large financial institutions that are highly regulated. The largest concentration of fixed maturity investments, by fair value, at a single custodian was $2.8 billion as of September 30, 2014 and December 31, 2013, respectively.

Leases

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

2015	$ 12,003
2016	9,895
2017	7,318
2018	6,625
2019	7,254
2020	3,851
	$ 46,946

Investments

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

September 30, 2014			December 31, 2013		
Original Commitments	Commitments Funded	Commitments Unfunded	Original Commitments	Commitments Funded	Commitments Unfunded
$311,000	$ 203,741	$ 107,259	$ 291,000	$ 176,760	$ 114,240

Guarantees

As at September 30, 2014 and December 31, 2013, the Company had, in total, parental guarantees supporting a subsidiary s insurance obligations in the amount of $265.2 million and $228.5 million, respectively.

Acquisitions and Significant New Business

The Company has entered into definitive agreements with respect to: (i) the purchase of Companion Property and Casualty Insurance Company, which is expected to close in the fourth quarter of 2014; and (ii) the Reciprocal of America loss portfolio transfer, which is expected to close in the fourth quarter of 2014. The Companion acquisition agreement is described in Note 2 Acquisitions, and the Reciprocal of America agreement is described in Note 3 Significant New Business.

Legal Proceedings

The Company is, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation regarding claims. The Company does not believe that the resolution of

ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. COMMITMENTS AND CONTINGENCIES (Continued)

any currently pending legal proceedings, either individually or taken as a whole, will have a material effect on its business, results of operations or financial condition. The Company anticipates that, similar to the rest of the insurance and reinsurance industry, it will continue to be subject to litigation and arbitration proceedings in the ordinary course of business, including litigation generally related to the scope of coverage with respect to asbestos and environmental claims.

19. SEGMENT INFORMATION

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

(i) *Non-life run-off* The Company s non-life run-off segment comprises the operations and financial results of our subsidiaries that are running off their property and casualty and other non-life lines of business together with the run-off businesses of Arden and Torus. It also includes the Company s smaller management business, in which it manages the run-off portfolios of third parties through the Company s service companies.

(ii) *Atrium* Atrium is an underwriting business at Lloyd s of London, which manages Syndicate 609 and provides approximately 25% of the syndicate s underwriting capacity and capital (with the balance provided by traditional Lloyd s Names). Atrium specializes in accident and health, aviation, marine, property, non-marine property, professional liability, property and casualty binding authorities, reinsurance, upstream energy, war and terrorism insurance, cargo and fine art. Arden is a Bermuda-based reinsurance company that provides reinsurance to Atrium (through an approximately 65% quota share reinsurance arrangement with Atrium 5 Ltd, an Atrium subsidiary) and is currently in the process of running off certain other third-party business. Results related to Arden s run-off business are included within the Company s non-life run-off segment.

(iii) *Torus* Torus is a global specialty insurer that offers a diverse range of property, casualty and specialty insurance through its operations in the U.K., Continental Europe, the U.S. and Bermuda. The activities of this segment comprise the active underwriting business of Torus.

(iv) *Life and annuities* The Company s life and annuities segment comprises the operations and financial results of its subsidiaries that are operating its closed-block of life and annuity business, which primarily consists of the companies it acquired in the Pavonia acquisition on March 31, 2013.

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

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

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

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

The Company s total assets by segment were:

	September 30, 2014	December 31, 2013
Total assets:		
Non-life run-off	$ 6,283,450	$ 6,619,992
Atrium	599,876	585,176
Torus	2,846,285	
Life and annuities	1,350,100	1,414,987
Less:		
Eliminations	(830,266)	
	$ 10,249,445	$ 8,620,155

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

	Three Months Ended September 30, 2014					
	Non-life run-off	Atrium	Torus	Life and annuities	Eliminations	Consolidated
INCOME						
Net premiums earned	$ 13,874	$ 34,850	$ 120,229	$ 27,034	$	$ 195,987
Fees and commission income	7,045	5,340			(5,584)	6,801
Net investment income	14,968	468	2,930	9,783	(165)	27,984
Net realized and unrealized (losses) gains	(15,556)	133	(2,615)	(298)		(18,336)
	20,331	40,791	120,544	36,519	(5,749)	212,436
EXPENSES						
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	(77,223)	15,541	79,215			17,533
Life and annuity policy benefits				26,549		26,549
Acquisition costs	1,898	11,673	18,905	3,785		36,261
Salaries and benefits	27,700	5,127	20,189	1,509		54,525
General and administrative expenses	20,097	3,868	19,951	2,707	(5,584)	41,039

Interest expense	1,802	1,505		165	(165)	3,307
Net foreign exchange losses (gains)	4,394	(338)	3,196	(887)		6,365
	(21,332)	37,376	141,456	33,828	(5,749)	185,579
EARNINGS (LOSS) BEFORE INCOME TAXES	41,663	3,415	(20,912)	2,691		26,857
INCOME TAXES	(3,966)	(725)		(969)		(5,660)
NET EARNINGS (LOSS)	37,697	2,690	(20,912)	1,722		21,197
Less: Net (earnings) loss attributable to noncontrolling interest	(1,674)	(1,745)	8,651			5,232
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 36,023	$ 945	$ (12,261)	$ 1,722	$	$ 26,429

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

	Nine Months Ended September 30, 2014					
	Non-life run-off	Atrium	Torus	Life and annuities	Eliminations	Consolidated
INCOME						
Net premiums earned	$ 33,485	$ 101,486	$ 258,468	$ 81,122	$	$ 474,561
Fees and commission income	22,218	15,635		34	(16,579)	21,308
Net investment income	51,568	1,445	4,295	29,724	(1,051)	85,981
Net realized and unrealized gains	44,999	30	603	9,016		54,648
	152,270	118,596	263,366	119,896	(17,630)	636,498
EXPENSES						
Net (reduction) increase in ultimate losses and loss adjustment expense liabilities	(143,606)	49,283	159,555			65,232
Life and annuity policy benefits				81,090		81,090
Acquisition costs	7,550	32,401	48,507	11,343		99,801
Salaries and benefits	85,011	12,886	37,789	5,912		141,598
General and administrative expenses	51,439	11,899	45,887	7,820	(16,579)	100,466
Interest expense	6,689	3,881		1,051	(1,051)	10,570
Net foreign exchange losses (gains)	5,892	(1,324)	3,821	(954)		7,435
	12,975	109,026	295,559	106,262	(17,630)	506,192
EARNINGS (LOSS) BEFORE INCOME TAXES	139,295	9,570	(32,193)	13,634		130,306
INCOME TAXES	(12,840)	(3,344)	(394)	(4,810)		(21,388)
NET EARNINGS (LOSS)	126,455	6,226	(32,587)	8,824		108,918
Less: Net (earnings) loss attributable to noncontrolling interest	(10,319)	(4,148)	13,358			(1,109)
NET EARNINGS (LOSS) ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 116,136	$ 2,078	$ (19,229)	$ 8,824	$	$ 107,809

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

	Three Months Ended September 30, 2013			
	Non-life run-off	Life and annuities	Eliminations	Consolidated
INCOME				
Net premiums earned	$ 28,134	$ 30,540	$	$ 58,674
Fees and commission income	3,051		(653)	2,398
Net investment income	15,764	9,719	(474)	25,009
Net realized and unrealized gains	35,515	1,495		37,010
	82,464	41,754	(1,127)	123,091
EXPENSES				
Net reduction in ultimate losses and loss adjustment expense liabilities	(20,388)			(20,388)
Life and annuity policy benefits		31,095		31,095
Acquisition costs	3,912	2,237		6,149
Salaries and benefits	28,213	1,503		29,716
General and administrative expenses	24,434	5,345	(653)	29,126
Interest expense	3,270	474	(474)	3,270
Net foreign exchange gains	(608)	(65)		(673)
	38,833	40,589	(1,127)	78,295
EARNINGS BEFORE INCOME TAXES	43,631	1,165		44,796
INCOME TAXES	(1,356)	16		(1,340)
NET EARNINGS	42,275	1,181		43,456
Less: Net earnings attributable to noncontrolling interest	(3,469)			(3,469)
NET EARNINGS ATTRIBUTABLE TO ENSTAR GROUP LIMITED	$ 38,806	$ 1,181	$	$ 39,987

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ENSTAR GROUP LIMITED

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. SEGMENT INFORMATION (Continued)

	Nine Months Ended September 30, 2013			
	Non-life run-off	Life and annuities	Eliminations	Consolidated
INCOME				
Net premiums earned	$ 100,270	$ 65,661	$	$ 165,931
Fees and commission income	9,215		(1,410)	7,805
Net investment income	51,111	20,062	(949)	70,224
Net realized and unrealized gains (losses)	48,555	(9,344)		39,211
	209,151	76,379	(2,359)	283,171
EXPENSES				
Net reduction in ultimate losses and loss adjustment expense liabilities	(38,649)			(38,649)
Life and annuity policy benefits		57,417		57,417
Acquisition costs	12,011	6,138		18,149
Salaries and benefits	76,303	2,710		79,013
General and administrative expenses	56,895	11,589	(1,410)	67,074